



FINANCIAL STATEMENTS

Prostate Cancer Foundation
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Prostate Cancer Foundation

Financial Statements

Years Ended December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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

September 23, 2009

Prostate Cancer Foundation
Statements of Financial Position

	December 31	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,894,591	\$ 21,275,262
Pledges receivable	4,043,333	6,442,212
Marketable securities	25,312	52,868
Prepaid expenses	80,497	59,216
Other receivables	–	50,564
Total current assets	32,043,733	27,880,122
Furniture, equipment and improvements:		
Furniture and fixtures	37,180	37,180
Office equipment	110,574	110,574
Leasehold improvements	246,891	246,891
Computer software	344,384	325,280
	739,029	719,925
Less accumulated depreciation	(606,244)	(542,457)
	132,785	177,468
Investments	960,000	–
Long-term pledges receivable	2,772,772	1,236,542
Total assets	\$ 35,909,290	\$ 29,294,132
Liabilities and net assets		
Accounts payable	\$ 76,830	\$ 366,535
Accrued liabilities	953,057	1,063,012
Accrued payroll and payroll-related liabilities	424,103	483,848
Research awards payable	18,462,755	8,650,000
Total liabilities	19,916,745	10,563,395
Unrestricted net assets	15,992,545	18,730,737
Total liabilities and net assets	\$ 35,909,290	\$ 29,294,132

See accompanying notes.

Prostate Cancer Foundation

Statements of Activities

	Year Ended December 31	
	2008	2007
Support and revenues:		
Donations	\$ 36,720,708	\$ 34,773,813
Net realized and unrealized loss on investments	(3,805)	(1,578)
Interest and other income	520,254	624,047
Total support and revenues	37,237,157	35,396,282
Program services:		
Research grants, association awards and donations	28,069,538	14,274,150
Scientific conferences	2,086,024	2,420,640
Public awareness and advocacy expense	2,529,047	1,560,191
Total program services	32,684,609	18,254,981
General and administrative expenses	2,887,230	2,420,921
Fund-raising expenses	4,403,510	4,729,126
Total expenditures	39,975,349	25,405,028
Change in net assets	(2,738,192)	9,991,254
Net assets at beginning of year	18,730,737	8,739,483
Net assets at end of year	\$ 15,992,545	\$ 18,730,737

See accompanying notes.

Prostate Cancer Foundation

Statements of Cash Flows

	Year Ended December 31	
	2008	2007
Operating activities		
Change in net assets	\$ (2,738,192)	\$ 9,991,254
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	63,787	63,082
Donation of marketable securities	(116,462)	(227,158)
Net realized and unrealized loss on investments	3,805	1,578
Proceeds from sales of marketable securities	237,758	225,580
Changes in operating assets and liabilities:		
Pledges receivable	862,649	3,052,251
Marketable securities	(1,057,545)	(23,484)
Prepaid expenses	(21,281)	3,185
Other receivables	50,564	60,034
Accounts payable	(289,705)	179,704
Accrued liabilities	(109,955)	111,872
Accrued payroll and payroll-related liabilities	(59,745)	63,324
Research awards payable	9,812,755	(4,881,870)
Net cash provided by operating activities	6,638,433	8,619,352
Investing activities		
Purchase of furniture, equipment and improvements	(19,104)	(146,282)
Net cash used in investing activities	(19,104)	(146,282)
Net increase in cash and cash equivalents	6,619,329	8,473,070
Cash and cash equivalents at beginning of year	21,275,262	12,802,192
Cash and cash equivalents at end of year	\$ 27,894,591	\$ 21,275,262

See accompanying notes.

Prostate Cancer Foundation

Notes to Financial Statements

December 31, 2008

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 concerning the amounts reported in the financial statements and accompanying notes. 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, 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.

Program Service Expenses

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

Prostate Cancer Foundation

Notes to Financial Statements (continued)

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, and highly liquid short-term investments with maturities of three months or less when purchased. Included in cash equivalents at December 31, 2008, was \$23,716,611 of commercial paper that matured and was realized in cash in January 2009.

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 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

Fair Value Measurement

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets and liabilities. SFAS No. 157 establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The adoption date for non-financial assets and liabilities that are not re-measured on a recurring basis (i.e., at least annually) is January 1, 2009. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

Prostate Cancer Foundation

Notes to Financial Statements (continued)

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

In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. These include pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value as of December 31, 2008, are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Cash and cash equivalents	\$ 27,894,591	\$ –	–
Equity securities	25,312	–	960,000

The adoption of SFAS No. 157 did not have a material impact on the Foundation's financial statements. The Foundation does not currently expect the application of the fair value framework established by SFAS No. 157 to nonfinancial assets and liabilities measured on a non-recurring basis to have a material impact on the financial statements. However, the Foundation will continue to assess the potential effect of SFAS No. 157 as additional information becomes available.

Prostate Cancer Foundation

Notes to Financial Statements (continued)

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

The Foundation did not elect to adopt the provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure, at fair value, many financial instruments and certain other items that are not required to be measured at fair value under generally accepted accounting principles.

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 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. In December 2008, the FASB issued FIN 48-3 delaying the effective date of FIN 48 for certain nonpublic enterprises until fiscal years beginning after December 15, 2008.

2. Pledges Receivable

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

	<u>2008</u>	<u>2007</u>
Due in one year or less	\$ 4,043,333	\$ 6,442,212
Due after one year through five years	<u>2,772,772</u>	<u>1,236,542</u>
	<u>\$ 6,816,105</u>	<u>\$ 7,678,754</u>

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

	<u>2008</u>	<u>2007</u>
Gross long-term pledges receivable	\$ 3,356,746	\$ 1,623,413
Unamortized discount	<u>(583,974)</u>	<u>(386,871)</u>
	<u>\$ 2,772,772</u>	<u>\$ 1,236,542</u>

Prostate Cancer Foundation

Notes to Financial Statements (continued)

3. Research Awards Payable

The Foundation made grants to various medical and cancer research centers scheduled for payment as of December 31, 2008, as follows during the year ended December 31:

2009	\$ 10,356,378
2010	<u>8,106,377</u>
Total	<u>\$ 18,462,755</u>

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Functional Expenses

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

Description	Program Services				Total	Management and General	Fund-raising	Total
	Research Grants	Scientific Conferences	Public Awareness and Advocacy					
Research grants	\$ 28,069,538	\$ -	\$ -	\$ 28,069,538	\$ -	\$ -	\$ 28,069,538	
Compensation, benefits and payroll taxes	-	1,012,492	534,999	1,547,491	1,133,424	993,310	3,674,225	
Professional fees	-	53,959	343,459	397,418	394,418	1,093,919	1,885,755	
Office related	-	93,325	65,372	158,697	545,636	86,982	791,315	
Occupancy	-	26,057	97,467	123,524	166,668	68,922	359,114	
Travel, meals and entertainment	-	45,845	33,106	78,951	38,775	527,969	645,695	
Conferences, conventions and meetings	-	802,337	1,179,995	1,982,332	-	1,504,036	3,486,368	
Media, public relations and publications	-	47,821	166,569	214,390	6,461	80,200	301,051	
Depreciation and amortization	-	4,188	5,580	9,768	42,848	11,172	63,788	
Other expenses	-	-	102,500	102,500	559,000	37,000	698,500	
	<u>\$ 28,069,538</u>	<u>\$ 2,086,024</u>	<u>\$ 2,529,047</u>	<u>\$ 32,684,609</u>	<u>\$ 2,887,230</u>	<u>\$ 4,403,510</u>	<u>\$ 39,975,349</u>	

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Functional Expenses (continued)

Detail expenses by major functional category for the year ended December 31, 2007:

Description	Program Services			Total	Management and General	Fund-raising	Total
	Research Grants	Scientific Conferences	Public Awareness and Advocacy				
Research grants	\$ 14,274,150	\$ –	\$ –	\$ 14,274,150	\$ –	\$ –	\$ 14,274,150
Compensation, benefits and payroll taxes	–	1,110,221	305,830	1,416,051	1,261,192	917,273	3,594,516
Professional fees	–	–	9,910	9,910	85,387	374,982	470,279
Office related	–	52,250	17,199	69,449	146,019	113,932	329,400
Occupancy	–	35,556	35,556	71,112	134,204	62,220	267,536
Travel, meals and entertainment	–	25,213	5,843	31,056	67,581	672,904	771,541
Conferences, conventions and meetings	–	1,019,485	617,685	1,637,170	16,922	1,831,664	3,485,756
Media, public relations and publications	–	28,788	245,931	274,719	27	185,014	459,760
Depreciation and amortization	–	7,374	10,436	17,810	32,366	12,906	63,082
Other expenses	–	141,753	311,801	453,554	677,223	558,231	1,689,008
	<u>\$ 14,274,150</u>	<u>\$ 2,420,640</u>	<u>\$ 1,560,191</u>	<u>\$ 18,254,981</u>	<u>\$ 2,420,921</u>	<u>\$ 4,729,126</u>	<u>\$ 25,405,028</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, 2008 and 2007, a total of \$355,248,165 and \$318,527,457, respectively, in contributions, of which \$57,908,080 and \$57,407,070, respectively, was received from the Milken Family Foundation and related entities, and \$297,340,085 and \$261,120,387, 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, 2008.

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 2008 and 2007 was \$296,114 and \$296,115, respectively. There is no minimum rental payment for 2009.

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 2008 was \$63,000. Future annual minimum lease payments under this lease are as follows:

2009	\$ 90,340
2010	90,340
2011	90,340
2012	90,340
2013	45,170
Total	<u>\$ 406,530</u>

Certain administrative and fundraising services were performed by a related charitable organization or other affiliates. Expenses incurred and reimbursed in 2008 and 2007 were \$379,238 and \$92,338, 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 2008 and 2007 were \$15,886 and \$16,412, respectively.

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