

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Combined Financial Statements

December 31, 2013 and 2012

## Independent Auditors' Report

### **The Board of Directors The Charles A. Dana Foundation, Incorporated**

We have audited the accompanying combined financial statements of The Charles A. Dana Foundation, Incorporated and Affiliates (the "Foundation"), which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Charles A. Dana Foundation, Incorporated and Affiliates as of December 31, 2013 and 2012, and the changes in their combined net assets and their combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*O'Connor Davies, LLP*

June 11, 2014

O'CONNOR DAVIES, LLP

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**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Combined Statements of Financial Position

	December 31,	
	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,101,738	\$ 9,867,609
Accounts and interest receivable	9,840	393,566
Prepaid federal excise tax	-	59,050
Investments	229,348,927	220,109,935
Prepaid expenses	133,238	156,427
Security deposits	136,665	137,225
Leasehold improvements, net of accumulated amortization of \$114,706 and \$76,844 for 2013 and 2012	295,732	333,594
	<b>\$ 243,026,140</b>	<b>\$ 231,057,406</b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 323,952	\$ 182,134
Unpaid grant awards	6,558,909	8,495,750
Federal excise tax payable	55,000	-
Federal and state unrelated business income tax payable	33,000	-
Deferred federal excise tax	1,000,000	675,000
Other deferred liabilities	364,470	497,462
Postretirement benefit obligation	2,911,935	2,737,350
Total Liabilities	11,247,266	12,587,696
Net Assets		
Unrestricted net assets	231,670,961	218,371,801
Temporarily restricted net assets	107,913	97,909
Total Net Assets	231,778,874	218,469,710
	<b>\$ 243,026,140</b>	<b>\$ 231,057,406</b>

See notes to combined financial statements

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Combined Statements of Activities

	Year Ended December 31,	
	2013	2012
<b>UNRESTRICTED NET ASSETS</b>		
<b>REALIZED INCOME AND SUPPORT</b>		
Realized investment income		
Dividends and interest	\$ 1,241,194	\$ 1,487,933
Net income from partnership interests	8,251,794	8,854,687
Net realized gain (loss) from sales and redemptions of securities and limited partnership interests	3,396,026	(1,471,233)
	12,889,014	8,871,387
Less investment expenses	420,579	441,774
Net Realized Investment Income	12,468,435	8,429,613
Other income	12,150	207,102
Net assets released from restrictions	49,996	82,091
Total Realized Income and Support	12,530,581	8,718,806
 <b>EXPENSES</b>		
Grant awards	4,960,311	6,014,530
Direct charitable activities	6,200,666	6,484,296
Operations and governance	2,326,414	2,291,257
Federal excise and unrelated business tax provision	334,962	114,258
Total Expenses	13,822,353	14,904,341
Deficiency of Realized Income Over Expenses	(1,291,772)	(6,185,535)
Unrealized appreciation of investments, net of provision for deferred Federal excise tax of \$325,000 and \$265,000	14,485,560	13,904,903
Change in Unrestricted Net Assets Before		
Postretirement Benefit Obligation Adjustment	13,193,788	7,719,368
Postretirement benefit obligation adjustment	105,372	132,189
Change in Unrestricted Net Assets	13,299,160	7,851,557
 <b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	60,000	180,000
Net assets released from restrictions	(49,996)	(82,091)
Change in Temporarily Restricted Net Assets	10,004	97,909
Change in Net Assets	13,309,164	7,949,466
 <b>NET ASSETS</b>		
Beginning of year	218,469,710	210,520,244
End of year	\$ 231,778,874	\$ 218,469,710

See notes to combined financial statements

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Combined Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,309,164	\$ 7,949,466
Adjustments to reconcile change in net assets to net cash from operating activities		
Amortization	37,862	283,052
Net realized and unrealized gains on investments	(18,206,586)	(12,698,670)
Postretirement benefit obligation adjustment	105,372	132,189
Deferred federal excise tax provision	325,000	265,000
Net changes in operating assets and liabilities		
Accounts and interest receivable	383,726	(367,025)
Prepaid federal excise tax	59,050	8,070
Prepaid expenses	23,189	(24,510)
Accounts payable and accrued liabilities	141,818	(173,416)
Unpaid grant awards	(1,936,841)	(7,385,479)
Federal excise taxes payable	55,000	-
Federal and state unrelated business income tax payable	33,000	-
Other deferred liabilities	(132,992)	(480,291)
Postretirement benefit obligation	69,213	(40,814)
Net Cash From Operating Activities	(5,734,025)	(12,532,428)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(54,667,544)	(32,197,837)
Proceeds from sale of investments	63,635,138	52,626,594
Purchase of leasehold improvements	-	(10,032)
Security deposits received, net	560	1,235
Net Cash From Investing Activities	8,968,154	20,419,960
Net Change in Cash and Cash Equivalents	3,234,129	7,887,532
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	9,867,609	1,980,077
End of year	\$ 13,101,738	\$ 9,867,609
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Federal excise and unrelated business income taxes paid	\$ 135,000	\$ 130,000

See notes to combined financial statements

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Notes to Combined Financial Statements  
December 31, 2013 and 2012

**1. Organization**

The Charles A. Dana Foundation, Incorporated (the “Foundation”) is a private philanthropic organization chartered in 1950 with a particular interest in neuroscience. The Foundation is a nonprofit organization exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (the “Code”), and is a private foundation as defined in Section 509(a) of the Code.

Dana Publications LLC (Publications) was organized in 2006 as a wholly-owned subsidiary of the Foundation to support the charitable activities of the Foundation.

The Dana Alliance for Brain Initiatives, Inc., (the “Alliance”) is a private philanthropic organization chartered in 1993. The principal purposes of the Alliance are to educate and inform the general public and interested professionals regarding advancement in research on the human brain, development of new effective treatments for brain diseases and the critical need for such research and development to be vigorously pursued and supported. The Alliance is a nonprofit organization exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code), and is a private foundation as defined in Section 509(a) of the Code.

European Dana Alliance for the Brain, LLC (EDAB), a wholly-owned subsidiary of the Alliance was formed for the purpose of increasing public awareness in Europe of the latest developments in neuroscience.

**2. Summary of Significant Accounting Policies**

***Principles of Combination***

The accompanying combined financial statements include the accounts of all the above organizations. These combined entities share the same mission and are referred to collectively as the “Foundation”, unless otherwise specifically referred to. All intercompany balances and transactions have been eliminated when combined.

***Basis of Presentation and Use of Estimates***

The accompanying combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

***Cash Equivalents***

Cash equivalents represent short-term investments with maturities at the time of purchase of three months or less.

**The Charles A. Dana Foundation,  
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Notes to Combined Financial Statements  
December 31, 2013 and 2012

**2. Summary of Significant Accounting Policies (continued)**

***Fair Value Measurements***

The Foundation follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

***Investments Valuation***

Investments, other than cash, are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value (“NAV”) as reported by the management of the respective alternative investment fund. U.S. GAAP guidance provides for the use of NAV as a “Practical Expedient” for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation’s interest therein and their classification within Level 2 or 3 is based on the Foundation’s ability to redeem its interest in the near term.

***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized gains and losses on the sale of investments are computed on the specific identification basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

***Investments Risks and Uncertainties***

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees’ financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Notes to Combined Financial Statements  
December 31, 2013 and 2012

**2. Summary of Significant Accounting Policies (*continued*)**

***Fixed Assets and Leasehold Improvements***

Leasehold improvements are amortized over the terms of the office leases. Furniture, fixtures and equipment purchased during the course of normal business activities are charged to operations when purchased. During 2012, fully amortized leasehold improvements amounting to \$2,056,613 were removed from the Foundations books and records as a result of the end of the Foundation's occupancy at its Washington D.C. office location.

***Grant Expense***

The Foundation recognizes grant expense upon award of the grant.

***Postretirement Benefit Plan***

The Foundation follows U.S. GAAP guidance on defined benefit plans which requires the Foundation to recognize the funded status of the Foundation's postretirement medical and health benefits as an asset or liability in its combined statement of financial position with a corresponding adjustment to change in net assets in the statement of activities. The adjustment to change in net assets represents the balance of unrecognized actuarial gains that will be subsequently recognized within net periodic cost in the future.

***Presentation of Net Assets***

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Foundation's net assets and changes therein are classified as permanently restricted, temporarily restricted or unrestricted. The Foundation does not have any permanently restricted net assets.

***Accounting for Uncertainty in Income Taxes***

The Foundation's accounting policy is to provide liabilities for uncertain income tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as a Foundation exempt from income taxes. The Foundation is no longer subject to examinations by applicable taxing jurisdictions for periods prior to December 31, 2010.

***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is June 11, 2014.



**The Charles A. Dana Foundation,  
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**3. Investments**

The following are major categories of investments at December 31, grouped by the fair value hierarchy for those investments measured at fair value on a recurring basis:

Description	2013			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Commodities (Gold)	\$ 9,129,109	\$ -	\$ -	\$ 9,129,109
Marketable Securities				
Consumer	3,035,799	-	-	3,035,799
Financial	3,219,740	-	-	3,219,740
Industrial/Service	1,941,790	-	-	1,941,790
Other Industries	3,568,826	-	-	3,568,826
Mutual Funds	46,827,371	-	-	46,827,371
Hedge Funds				
Equity Long/Short	-	20,571,595	-	20,571,595
Global Opportunities	-	32,506,297	6,565,200	39,071,497
Absolute Returns (a)	-	9,314,406	44,701,691	54,016,097
Private Equity Investments (a)	-	-	30,397,700	30,397,700
Venture Capital Investments(a)	-	-	10,962,087	10,962,087
Real Assets (a)	-	2,074,834	264,191	2,339,025
Total at Fair Value	<u>\$ 67,722,635</u>	<u>\$ 64,467,132</u>	<u>\$ 92,890,869</u>	225,080,636
Cash and Cash equivalents, at cost				4,268,291
Total Investments				<u>\$ 229,348,927</u>

Description	2012			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Commodities (Gold)	\$ 11,245,789	\$ -	\$ -	\$ 11,245,789
Marketable Securities				
Consumer	1,813,471	-	-	1,813,471
Financial	2,337,559	-	-	2,337,559
Industrial/Service	2,528,047	-	-	2,528,047
Other Industries	2,150,440	-	-	2,150,440
Mutual Funds	32,439,823	-	-	32,439,823
Hedge Funds				
Equity Long/Short	-	14,820,144	-	14,820,144
Global Opportunities	-	27,192,840	5,623,145	32,815,985
Absolute Returns (a)	-	20,127,424	45,388,001	65,515,425
Private Equity Investments (a)	-	-	30,318,222	30,318,222
Venture Capital Investments(a)	-	-	8,736,383	8,736,383
Real Assets (a)	-	8,588,402	-	8,588,402
Total at Fair Value	<u>\$ 52,515,129</u>	<u>\$ 70,728,810</u>	<u>\$ 90,065,751</u>	213,309,690
Cash and Cash equivalents, at cost				6,800,245
Total Investments				<u>\$ 220,109,935</u>

**The Charles A. Dana Foundation,  
Incorporated and Affiliates**

Notes to Combined Financial Statements  
December 31, 2013 and 2012

**3. Investments (continued)**

(a) Based on its analysis of the nature and risks of these investments, the Foundation has determined that presenting them as a single class is appropriate.

There were no transfers into or out of each level of the fair value hierarchy for assets measured at fair value for the years ended December 31, 2013 and 2012.

The following is a reconciliation of the beginning and ending balances for investments measured at fair value using significant unobservable inputs (Level 3) during the year ended December 31,:

	2013					
	Hedge Funds	Absolute Returns	Private Equity Investments	Venture Capital Investments	Real Assets	Total
Beginning balance	\$ 5,623,145	\$ 45,388,001	\$ 30,318,222	\$ 8,736,383	\$ -	\$ 90,065,751
Total realized gains/(losses) included in change in net assets	-	1,701,898	2,669,329	229,883	(12,032)	4,589,078
Unrealized gains/(losses) relating to instruments still held at the reporting date included in the change in net assets	942,055	5,292,491	1,412,986	2,440,827	(11,277)	10,077,082
Purchases, issuances and (settlements), net	-	(7,680,699)	(4,002,837)	(445,006)	287,500	(11,841,042)
Ending balance	<u>\$ 6,565,200</u>	<u>\$ 44,701,691</u>	<u>\$ 30,397,700</u>	<u>\$ 10,962,087</u>	<u>\$ 264,191</u>	<u>\$ 92,890,869</u>

  

	2012					
	Hedge Funds	Absolute Returns	Private Equity Investments	Venture Capital Investments	Real Assets	Total
Beginning balance	\$ 5,000,000	\$ 39,138,573	\$ 28,632,138	\$ 8,190,726	\$ 8,019,034	\$ 88,980,471
Total realized gains/(losses) included in change in net assets	-	1,857,942	2,658,821	119,260	(3,841,848)	794,175
Unrealized gains relating to instruments still held at the reporting date included in the change in net assets	623,145	2,391,486	809,707	117,711	2,980,966	6,923,015
Purchases, issuances and (settlements), net	-	2,000,000	(1,782,444)	308,686	(7,158,152)	(6,631,910)
Ending balance	<u>\$ 5,623,145</u>	<u>\$ 45,388,001</u>	<u>\$ 30,318,222</u>	<u>\$ 8,736,383</u>	<u>\$ -</u>	<u>\$ 90,065,751</u>

Information regarding alternative investments valued at NAV using the practical expedient at December 31, 2013 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds (see "a" below)	\$ 20,571,595	\$ -	Quarterly	60 days
Global Opportunity Hedge Funds (see "b" below)	39,071,497	-	Monthly/Quarterly	10 to 60 days
Absolute Return Investments (see "c" below)	54,016,097	-	Annual	45 to 90 days
Private Equity Investments (see "d" below)	30,397,700	8,529,384	Locked 2014 to 2020	N/A
Venture Capital Funds (see "e" below)	10,962,087	1,229,166	Locked 2019	N/A
Real Asset Investments (see "f" below)	2,339,025	2,212,500	Monthly/Locked 2024	30 days / N/A
	<u>\$ 157,358,001</u>	<u>\$ 11,971,050</u>		

**The Charles A. Dana Foundation,  
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Notes to Combined Financial Statements  
December 31, 2013 and 2012

**3. Investments (*continued*)**

- (a) This investment seeks to outperform the S&P 500 Index by 2% to 4% per year using a risk-controlled industry-neutral, analyst driven portfolio management approach. The investment process emphasizes intra-industry investment opportunities.
- (b) This class includes investment managers that take a bottoms-up approach to their investment methodology, seeking long term capital appreciation. They place a focus on meeting management, analyzing market position and financial metrics. Because of their focus on industry and country diversification, currency hedges are rarely used. There are five investments in this class.
- (c) Some of this class looks to invest in a vast universe of private equity firms and hedge funds that allows it to diversify its investments and risks and generate absolute returns. Others in this class look to achieve an absolute return strategy through hedging their investments using various trading techniques, while trading both equities and debt. These investments generally have a year-end withdrawal date, with appropriate notice. There are eight investments in this class.
- (d) This category is primarily represented by investments that take a fund-of-fund approach. Using their vast array of contacts and research, they seek out the best private equity investment managers for their portfolios. This category is highly diversified and is represented by thirteen investments.
- (e) This class is represented by two investments. Both investments focus on investing in venture partnerships that invest in technology-based and healthcare companies, at the seed and early stage levels.
- (f) This category is invested to outperform a customized benchmark. Its investment universe is culled from a broad range of sources, but not limited to the firm's research, company meetings with management, company referrals, computer screens, corporate actions, and broker research. There are two investments in this class.

**4. Taxes**

The Foundation and the Alliance are both subject to a Federal excise tax of 2% of their net investment income. This tax is reduced to 1% if certain distribution requirements are met. The Foundation provides for deferred Federal excise tax at 2% on the net unrealized appreciation in the fair value of investments. In addition the Foundation's investment in certain alternative investments gives rise to unrelated business income taxed at general corporate rates.

**The Charles A. Dana Foundation,  
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Notes to Combined Financial Statements  
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**5. Retirement Plan**

Retirement benefits under a defined contribution plan are provided to full-time employees who have completed six months of continuous service. The Foundation makes contributions to the Plan equal to 15% of employee compensation, as defined in the Plan document, subject to statutory limitations. Retirement plan expense was \$405,713 and \$461,998 for 2013 and 2012.

**6. Postretirement Healthcare Benefits**

In addition to the above retirement plan, the Foundation sponsors an unfunded plan to provide certain health care benefits for retirees of the Foundation and the Alliance. The Foundation funds its postretirement benefits costs on a pay as you go basis.

Information as of and for the years ended December 31, for the plan is as follows:

	<u>2013</u>	<u>2012</u>
Benefit Obligation (Funded Status)		
at End of Year	\$ 2,911,935	\$ 2,737,350
Net postretirement benefit costs	336,498	279,372
Unrecognized actuarial gain	105,372	132,189
Benefits paid	56,541	55,808
Discount rate used	4.85%	3.91%
Components of Net Periodic Expense		
for the Year		
Service cost	\$ 226,988	\$ 166,869
Interest cost	<u>109,510</u>	<u>112,503</u>
	<u>\$ 336,498</u>	<u>\$ 279,372</u>
	Increase (Decrease)	
	<u>2013</u>	<u>2012</u>
Effect of a one-percent point		
increase in HCCTR* on		
Year end benefit obligation	\$ 441,007	\$ 611,300
Total of service and interest		
cost component	18,116	55,092
Effect of a one-percent point		
decrease in HCCTR* on		
Year end benefit obligation	(356,906)	(246,949)
Total of service and interest		
cost component	(82,132)	(47,484)

\* Health Care Cost Trend Rate

**The Charles A. Dana Foundation,  
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Notes to Combined Financial Statements  
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**6. Postretirement Healthcare Benefits (continued)**

Measurements used to determine the postretirement benefit obligation for 2013 and 2012 were computed as of December 31.

For measurement purposes, an 8.5% annual rate of increase in per capita cost of covered health benefits was assumed for 2013, decreasing to 5% in 2017 and thereafter.

Net benefits expected to be paid in each of the next five years and the following five years in the aggregate are as follows:

2014	\$ 142,586
2015	132,513
2016	157,277
2017	161,672
2018	170,271
5 years thereafter	986,330

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2013 and 2012 are restricted to support the expansion of the Staying Sharp public forms initiative and all net assets released from restrictions during 2013 and 2012 were for this initiative.

**8. Lease Commitments**

The Foundation leases office space in New York City and Washington D.C. The New York City office space lease is for the period beginning February 1, 2011 and ending in May 2021. The Washington D.C. office space lease expired during 2012.

As of December 31, 2013 future minimum annual rental payments are as follows:

2014	\$ 782,430
2015	782,430
2016	847,633
2017	853,560
2018	853,560
Thereafter	<u>2,062,770</u>
	<u>\$6,182,383</u>

The lease agreements require additional payments to cover the escalation of maintenance costs and real estate taxes. The Foundation's share of rental expense included in the statements of activities, amounted to \$853,713 in 2013 and \$1,238,946 in 2012.

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