

Auditors' Opinion and Financial Statements

Independent Auditors' Report

The Board of Directors

The Charles A. Dana Foundation, Incorporated

We have audited the accompanying combined statements of financial position of The Charles A. Dana Foundation, Incorporated and Affiliates (the "Foundation") as of December 31, 2007 and 2006, 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 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 includes 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 combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the changes in their combined net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, to the consolidated financial statements, during 2007 the Foundation adopted FASB Statement No. 158 “Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.”

O’Connor Davies Munns & Dobbins, llp
New York, New York
May 1, 2008

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	\$9,432,540	\$3,011,636
Accounts and interest receivable	3,397,734	613,094
Investments	323,692,140	327,851,553
Prepaid expenses	1,068,480	1,159,985
Leasehold improvements, net of accumulated amortization, \$1,602,466 and \$1,314,591 for 2007 and 2006	1,533,515	1,821,390
	\$339,124,409	\$334,457,658
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$1,395,933	\$853,991
Unpaid grant awards	25,560,475	28,170,601
Taxes payable	47,000	68,694
Deferred Federal excise tax	1,336,038	1,320,439
Other deferred liabilities	869,867	982,754
Postretirement benefit obligation	2,042,066	1,844,236
Total Liabilities	31,251,379	33,240,715
Net Assets		
Unrestricted net assets	307,873,030	301,216,943
	\$339,124,409	\$334,457,658

See notes to combined financial statements.

COMBINED STATEMENTS OF ACTIVITIES

Years Ended December 31, 2007 and 2006

	2007	2006
REALIZED INCOME		
Realized Investment Income		
Dividends and interest	\$4,200,532	\$4,813,651
Net realized gain from sales of limited partnership interests	24,291,848	17,871,913
Net realized gain from sales and redemptions of securities	7,497,233	12,676,435
	35,989,613	35,361,999
Less investment expenses	1,258,922	1,136,132
Net Realized Investment Income	34,730,691	34,225,867
Foreign exchange (loss) gain	(5,386)	16,627
Net Realized Income	34,725,305	34,242,494
EXPENSES		
Grant awards	15,767,125	16,126,522
Direct charitable activities	9,944,790	9,466,210
General administration	2,863,043	3,216,425
Provision for taxes	304,972	363,000
Total Expenses	28,879,930	29,172,157
Excess of Net Realized Income Over Expenses	5,845,375	5,070,337
Unrealized appreciation of investments, net of provision for deferred Federal excise tax, \$15,599 and \$189,215 for 2007 and 2006	764,347	9,271,529
Change in Net Assets Before Adoption of Recognition Provisions of FASB Statement No. 158	6,609,722	14,341,866
Effect of adoption of FASB Statement No. 158	46,365	-
Change in Net Assets	6,656,087	14,341,866
NET ASSETS		
Beginning of year	301,216,943	286,875,077
End of year	\$307,873,030	\$301,216,943

See notes to combined financial statements.

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$6,656,087	\$14,341,866
Adjustments to reconcile change in net assets to net cash used by operating activities		
Amortization	287,875	287,873
Realized gains from sale of investment	(31,789,081)	(30,548,348)
Unrealized gains on investments	(779,946)	(9,460,744)
Deferred Federal excise tax	15,599	189,215
Postretirement benefit obligation	197,830	365,506
Net changes in operating assets and liabilities		
Accounts and interest receivable	(2,784,640)	48,003
Prepaid expenses	91,505	40,773
Accounts payable and accrued liabilities	541,942	(132,227)
Unpaid grant awards	(2,610,126)	726,260
Taxes payable	(21,694)	5,714
Other deferred liabilities	(112,887)	(91,973)
Net Cash Used By Operating Activities	(30,307,536)	(24,228,082)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(155,418,819)	(200,236,268)
Proceeds from sale of investments	192,147,259	213,039,640
Net Cash Provided By Investing Activities	36,728,440	12,803,372
Net Increase (Decrease) in Cash and Cash Equivalents	6,420,904	(11,424,710)
CASH AND CASH EQUIVALENTS		
Beginning of year	3,011,636	14,436,346
End of year	\$9,432,540	\$3,011,636
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise and unrelated business income taxes paid	\$375,000	\$357,286

See notes to combined financial statements.

1. ORGANIZATION

The Charles A. Dana Foundation, Incorporated (the “Foundation”) is a private philanthropic organization chartered in 1950 with particular interests in neuroscience, immunology, and arts education. 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. In 1998, the Dana Alliance Limited (DAL) was organized in the United Kingdom, as a wholly-owned subsidiary of the Alliance, with the purpose of increasing public awareness in Europe of the latest developments in neuroscience. The accompanying financial statements include the consolidation of the Alliance and DAL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The accompanying combined financial statements include the accounts of all the above organizations on a combined basis. These combined entities share the same mission and are referred to collectively as the “Foundation,” unless

otherwise specifically referred to. All inter-company accounts and transactions have been eliminated when combined.

Use of Estimates

The Foundation prepared these financial statements to conform to accounting principles generally accepted in the United States of America. These principles require the Foundation to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent liabilities as of the report's date, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. The Foundation's net assets are neither permanently nor temporarily restricted by donor-imposed restrictions and are classified as unrestricted.

Cash Equivalents

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

Investments

Investments in debt securities and publicly traded equities are recorded at fair value. Investments in securities traded on a national securities exchange are valued at the last reported closing price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sales are reported on that day are valued at bid prices.

Some of the underlying investments held by the Limited Partnerships in which the Foundation has an equity interest are in privately held companies. The fair value of those investments has been estimated by the General Partners (GP) of such Limited Partnerships after consideration of current financial conditions and operating results, recent third-party market transactions and

other pertinent information about the individual companies comprising such investments. Investments made in such Limited Partnerships are generally considered by their GP to be long-term investments and are not intended to be liquidated on a short-term basis. Accordingly, fair values determined by such GP's may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately maybe realized. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because Limited Partnerships are not readily marketable, their estimated value is subject to uncertainty and therefore may be materially different from the value that would have been used had a ready market for such investments existed. At December 31, 2007, and 2006, one Limited Partnership investment represented 10.2% and 17.5% of total investments.

Purchases and sales of investments are recorded on a trade-date basis. Realized gains and losses on the sale of investments are computed on the specific identification basis.

Grant Expense

The Foundation recognizes grant expense upon award of the grant.

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.

Foreign Currency Translation

The functional currency of DAL is the US dollar and was determined after evaluating operating factors. Gains and losses resulting from translation of DAL financial statements are included in the statement of activities.

Implementation of SFAS No. 158

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB No. 158 ("Statement No. 158") *Employers Accounting for Defined Benefit*

Pension and Other Post Retirement Plans, an amendment of FASB Statements No.'s 87, 88, 106 and 132(R). As discussed in Note 6, during 2007, the Foundation adopted Statement No.158.

3. INVESTMENTS

The Foundation's investment portfolio at December 31 is summarized as follows:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Fixed Income Securities				
Government	\$ 22,849,292	\$ 23,380,378	\$ 24,718,054	\$ 24,619,690
Corporate	24,193,204	24,135,512	25,751,638	25,663,868
	47,032,496	47,515,890	50,469,692	50,283,558
Common Stock	12,172,429	17,469,757	12,568,536	17,936,179
Mutual Funds	68,999,785	99,477,404	60,153,506	86,196,825
Limited Partnerships	128,685,524	159,229,089	138,637,859	173,434,991
Total	\$256,890,234	\$323,692,140	\$261,829,593	\$327,851,553

4. TAXES

The Foundation is subject to a Federal excise tax of 2% of its net investment income. This tax is reduced to 1% if certain distribution requirements are met. In addition, the Foundation provides for deferred Federal excise tax at 2% on the net unrealized appreciation in the fair value of investments.

The Alliance is also subject to a Federal excise tax of 2% on its net investment income.

5. RETIREMENT PLAN

Retirement benefits under a defined contribution plan are provided to full-time employees who have completed six months of continuous service. Retirement plan expense for the years ended December 31, 2007 and 2006 amounted to \$642,199 and \$620,584, respectively.

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.

Effective December 31, 2007, the Foundation adopted the recognition provisions of Financial Accounting Standard's Board ("FASB") Statement No. 158 which require the Foundation to recognize the funded status of the Foundation's defined benefit plan as a liability in the December 31, 2007 statement of financial position with the 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. Measurements used to determine the postretirement benefit obligation for the years ended 2007 and 2006 were computed as of December 31.

The incremental effects of adopting the provisions of Statement 158 on the Foundation's financial position at December 31, 2007 and the change in net assets for the year then ended are presented in the following table.

	Prior to Adopting Statement 158	Prior to Adopting Statement 158	As Reported
Accrued postretirement health and other benefits	\$ 2,088,431	\$ (46,365)	\$ 2,042,066
Non-operating item change in net assets	-	46,365	46,365

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

	2007	2006
Benefit Obligation (Funded Status) at End of Year	\$2,042,066	\$1,844,236
Net postretirement benefit costs	254,755	269,043
Unrecognized actuarial gain (loss)	46,365	(108,030)
Benefits paid	10,653	11,566
Discount rate used	5.75%	5.75%

For measurement purposes, an 8.5% annual rate of increase in per capita cost of covered health benefits was assumed for 2007, decreasing to 5% in 2011 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:

2008	\$ 84,512
2009	101,257
2010	91,822
2011	126,963
2012	147,391
5 years thereafter	733,984

7. COMMITMENTS

Leases

The Foundation leases office space in New York City, Washington DC and Los Angeles under amended lease agreements. As of December 31, 2007 future minimum annual rental payments are as follows:

2008	\$ 1,619,348
2009	1,633,538
2010	1,617,667
2011	1,639,220
2012	1,402,199
2013	568,540
	<u>\$ 8,480,512</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 \$1,705,860 in 2007 and \$1,627,090 in 2006.

DAL occupies office space in the United Kingdom. During 2004, the Alliance made one advance rent payment in the amount of \$1,419,847, covering

the 15-year lease term, which expires August 2019. Rental expense included in the statement of activities amounted to \$119,128 in 2007 and \$116,504 in 2006.

Investments

As of December 31, 2007, under the provisions of certain limited partnership agreements, the Foundation has unpaid commitments to contribute approximately \$30,000,000 in additional capital over the next 10 years.