

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

Combined Financial Statements

December 31, 2006



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

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, 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 of America. Those standards require that we plan and perform the audits 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 financial position of The Charles A. Dana Foundation, Incorporated and affiliates as of December 31, 2006 and 2005, and changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
April 24, 2007

The Charles A. Dana Foundation, Incorporated And Affiliates

Combined Statements of Financial Position

December 31,

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 3,011,636	\$ 14,436,346
Accounts and interest receivable	613,094	661,097
Investments	327,851,553	300,645,833
Prepaid expenses	1,159,985	1,200,758
Leasehold improvements, net of accumulated amortization, \$1,314,591 and \$1,026,718 for 2006 and 2005	<u>1,821,390</u>	<u>2,109,263</u>
	<u>\$ 334,457,658</u>	<u>\$ 319,053,297</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 853,991	\$ 986,218
Unpaid grant awards	28,170,601	27,444,341
Taxes payable	68,694	62,980
Deferred Federal excise tax	1,320,439	1,131,224
Other deferred liabilities	982,754	1,074,727
Postretirement benefit obligation	<u>1,844,236</u>	<u>1,478,730</u>
Total Liabilities	33,240,715	32,178,220
Net Assets		
Unrestricted net assets	<u>301,216,943</u>	<u>286,875,077</u>
	<u>\$ 334,457,658</u>	<u>\$ 319,053,297</u>

See notes to combined financial statements.

The Charles A. Dana Foundation, Incorporated And Affiliates

Combined Statements of Activities

Years Ended December 31,

	2006	2005
REALIZED INCOME		
Realized Investment Income		
Dividends and interest	\$ 4,813,651	\$ 5,191,355
Net realized gain from sales of limited partnership interests	17,871,913	8,781,696
Net realized gain from sales and redemptions of securities	12,676,435	13,930,033
	35,361,999	27,903,084
Less: Investment expenses	1,136,132	1,094,191
Net Realized Investment Income	34,225,867	26,808,893
Other income	16,627	300
Net Realized Income	34,242,494	26,809,193
EXPENSES		
Grant awards	16,126,522	14,703,220
Direct charitable activities	9,466,210	8,779,011
General administration	3,216,425	2,590,460
Provision for taxes	363,000	259,000
Total Expenses	29,172,157	26,331,691
Excess of Net Realized Income Over Expenses	5,070,337	477,502
Unrealized appreciation of investments, net of provision for deferred Federal excise tax, \$189,215 and \$8,030 for 2006 and 2005	9,271,529	393,810
Change In Net Assets	14,341,866	871,312
NET ASSETS		
Beginning of year	286,875,077	286,003,765
End of year	\$ 301,216,943	\$ 286,875,077

See notes to combined financial statements.

The Charles A. Dana Foundation, Incorporated And Affiliates

Consolidated Statements of Cash Flows

Years Ended December 31,

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,341,866	\$ 871,312
Adjustments to reconcile change in net assets to net cash used by operating activities		
Amortization	287,873	287,875
Realized gains from sale of investment	(30,548,348)	(22,711,729)
Unrealized gains on investments	(9,460,744)	(401,840)
Deferred Federal excise tax	189,215	8,030
Postretirement benefit obligation	365,506	(113,424)
Net changes in operating assets and liabilities		
Accounts and interest receivable	48,003	117,728
Prepaid expenses	40,773	94,656
Accounts payable and accrued liabilities	(132,227)	403,702
Unpaid grant awards	726,260	1,335,990
Taxes payable	5,714	52,743
Other deferred liabilities	(91,973)	(73,532)
Net Cash Used By Operating Activities	(24,228,082)	(20,128,489)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(200,236,268)	(245,279,701)
Proceeds from sale of investments	213,039,640	276,867,604
Net cash provided by investing activities	12,803,372	31,587,903
Net (decrease) increase in cash and cash equivalents	(11,424,710)	11,459,414
CASH AND CASH EQUIVALENTS		
Beginning of year	14,436,346	2,976,932
End of year	\$ 3,011,636	\$ 14,436,346

See notes to combined financial statements.

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

Notes to Combined Financial Statements

1. Organizations

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

Basis of Accounting

The accompanying combined financial statements are prepared on the accrual basis.

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.

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

Notes to Combined Financial Statements

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

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 original maturities of three months or less.

Investments

All investments in debt securities and publicly traded equities are 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. The estimated fair values of limited partnerships are based on valuations provided by the external investment managers. 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. 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.

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

Notes to Combined Financial Statements

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.

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.

3. Investments

The investment portfolio is summarized as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed income securities:				
Government	\$24,718,054	\$ 24,619,690	\$32,698,011	\$32,612,244
Corporate	<u>25,751,638</u>	<u>25,663,868</u>	<u>26,725,891</u>	<u>26,145,670</u>
	50,469,692	50,283,558	59,423,902	58,757,914
Common stock	12,568,536	17,936,179	15,052,658	20,611,581
Mutual funds	60,153,506	86,196,825	72,888,009	96,629,479
Limited partnerships	<u>138,637,859</u>	<u>173,434,991</u>	<u>96,720,048</u>	<u>124,646,859</u>
 Total	 <u>\$261,829,593</u>	 <u>\$327,851,553</u>	 <u>\$244,084,617</u>	 <u>\$300,645,833</u>

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.

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

Notes to Combined Financial Statements

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, 2006 and 2005 amounted to \$620,584 and \$545,158, respectively.

6. Postretirement Healthcare Benefits

The Foundation sponsors an unfunded plan to provide certain health care benefits for retirees. The following table sets forth the financial information for the plan for 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Benefit obligation at year end	\$1,844,238	\$1,478,730
Actuarial (gain) loss for year	108,030	(294,533)
Benefit costs	269,044	196,816
Benefits paid	11,566	15,707
Weighted average discount rate used	5.75%	5.75%
Health care trend rate assumed for next year		
Prior to age 65	8.00%	6.88%
Age 65 and above	7.50%	6.31%
Year that the rate reaches ultimate trend rate	2010	2009
Health care trend ultimate rate assumption	5.00%	5.00%

The following annual benefit payments reflect expected future service, as appropriate, expected to be paid in:

2007	\$ 83,022
2008	82,428
2009	97,818
2010	88,885
2011	120,695
5 years thereafter	724,788

Measurements used to determine the postretirement benefit obligation were computed as of January 1, 2006 and projected for December 31, 2006.

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

Notes to Combined Financial Statements

6. Postretirement Healthcare Benefits (continued)

In September 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R* (“Statement 158”). Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively “Plans”) to recognize the funded status of their Plans (Recognition Provisions) in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year end balance sheet (Measurement Date Provisions) and provide additional disclosures. The Foundation is required to and will adopt the Recognition Provisions as of the end of 2007 and will adopt the Measurement Date as of the end of 2008 on its financial statements.

7. Commitments

Leases

The Foundation leases office space in New York City, Washington D.C. and Los Angeles under amended lease agreements. As of December 31, 2006 future minimum annual rental payments are as follows:

2007	\$ 1,594,415
2008	1,619,348
2009	1,633,538
2010	1,617,667
2011	1,639,220
2012 through August 31, 2013	<u>1,970,739</u>
	<u>\$10,074,927</u>

The lease agreements require additional payments to cover the escalation of maintenance costs and real estate taxes. Rental expense included in the statements of activities, amounted to \$1,627,898 in 2006 and \$1,565,090 in 2005.

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 \$116,504 in 2006 and \$115,950 in 2005.

Investments

As of December 31, 2006, under the provisions of certain limited partnership agreements, the Foundation has unpaid commitments to contribute approximately \$19,000,000 in additional capital over the next 10 years.