The Charles A. Dana Foundation, Incorporated and Affiliates

Combined Financial Statements

December 31, 2008

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, 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 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, 2008 and 2007, 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.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
June 17, 2009

The Charles A. Dana Foundation,
Incorporated and Affiliates

Combined Statements of Financial Position

December 31,

	2008	2007
ASSETS		
Cash and cash equivalents	$ 3,340,501	$ 9,432,540
Accounts and interest receivable	302,531	3,397,734
Prepaid Federal excise tax	65,000	-
Investments	210,927,468	323,692,140
Prepaid expenses	949,547	1,068,480
Leasehold improvements, net of accumulated amortization of $1,890,341 and $1,602,466 for 2008 and 2007	1,245,640	1,533,515
	$ 216,830,687	$ 339,124,409
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 331,626	$ 1,395,933
Unpaid grant awards	25,752,384	25,560,475
Taxes payable	-	47,000
Deferred Federal excise tax	-	1,336,038
Other deferred liabilities	733,499	869,867
Postretirement benefit obligation	2,257,523	2,042,066
Total Liabilities	29,075,032	31,251,379
Net Assets		
Unrestricted net assets	187,755,655	307,873,030
	$ 216,830,687	$ 339,124,409

See notes to combined financial statements

The Charles A. Dana Foundation,
Incorporated and Affiliates

Combined Statements of Activities

Years Ended December 31,

	2008	2007
REALIZED INCOME		
Realized Investment Income		
Dividends and interest	$ 4,029,364	$ 4,200,607
Net realized gain from sales of limited partnership interests	6,969,818	24,291,848
Net realized gain from sales and redemptions of securities	6,648,617	7,497,233
	17,647,799	35,989,688
Less investment expenses	1,136,038	1,258,922
Net Realized Investment Income	16,511,761	34,730,766
Foreign exchange loss	(14,015)	(5,461)
Net Realized Income	16,497,746	34,725,305
EXPENSES		
Grant awards	16,691,983	15,767,125
Direct charitable activities	10,075,850	9,944,790
Operations and governance	2,921,934	2,863,043
Provision for taxes	312,920	304,972
Total Expenses	30,002,687	28,879,930
(Deficiency) Excess of Net Realized Income Over Expenses	(13,504,941)	5,845,375
Unrealized (depreciation) appreciation of investments, net of (benefit) provision for deferred Federal excise tax, (1,336,038) and $15,599 for 2008 and 2007	(106,711,874)	764,347
Change in Net Assets Before Postretirement Benefit Obligation Adjustment	(120,216,815)	6,609,722
Postretirement Benefit Obligation Adjustment	99,440	46,365
Change in Net Assets	(120,117,375)	6,656,087
NET ASSETS		
Beginning of year	307,873,030	301,216,943
End of year	$ 187,755,655	$ 307,873,030

See notes to combined financial statements

The Charles A. Dana Foundation,
Incorporated and Affiliates

Combined Statements of Cash Flows

Years Ended December 31,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (120,117,375)	$ 6,656,087
Adjustments to reconcile change in net assets to net cash from operating activities		
Postretirement benefit obligation adjustment	99,440	46,365
Amortization	287,875	287,875
Realized (gains) from sale of investment	(13,618,435)	(31,789,081)
Unrealized losses (gains) on investments	108,047,912	(779,946)
Deferred Federal excise tax	(1,336,038)	15,599
Postretirement benefit obligation	116,017	151,465
Net changes in operating assets and liabilities		
Accounts and interest receivable	3,095,203	(2,784,640)
Prepaid Federal excise tax	(65,000)	-
Prepaid expenses	118,933	91,505
Accounts payable and accrued liabilities	(1,064,307)	541,942
Unpaid grant awards	191,909	(2,610,126)
Taxes payable	(47,000)	(21,694)
Other deferred liabilities	(136,368)	(112,887)
Net Cash From Operating Activities	(24,427,234)	(30,307,536)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(229,643,339)	(155,418,819)
Proceeds from sale of investments	247,978,534	192,147,259
Net Cash From Investing Activities	18,335,195	36,728,440
Net Change in Cash and Cash Equivalents	(6,092,039)	6,420,904
CASH AND CASH EQUIVALENTS		
Beginning of year	9,432,540	3,011,636
End of year	$ 3,340,501	$ 9,432,540
SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise and unrelated business income taxes paid	$ 335,392	$ 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 with 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. Accordingly, actual results could differ from those estimates.

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

Accounting for Uncertainty in Taxes

The Foundation's current accounting policy is to provide liabilities for uncertain tax positions when a liability is probable and estimable. Management is not aware of any violation of its tax status as an organization exempt from taxes.

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, one Limited Partnership investment represented 10.2% of total investments.

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

Investments (continued)

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.

The Foundation adopted SFAS No. 157 "Fair Value Measurements" as of January 1, 2008, which, among other things, establishes a hierarchal framework for disclosure and measurement of investments at fair value. The hierarchal disclosure framework prioritizes and ranks the level of market price observations used in measuring investments at fair value. Market price observations are impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observations and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed under SFAS 157 in one of the following categories:

Level 1—Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3—Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an Investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the Investment.

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

Investments (continued)

Withdrawal restrictions on certain of these funds may, at times, affect liquidity on a short-term or long-term basis. These types of financial instruments contain varying degrees of risk whereby changes in the fair value of the securities underlying the financial instrument or the cost of satisfying obligations is limited to the amount recognized in the statements of financial position.

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.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to 2008 presentation.

3. Investments

The following are major categories of investments measured at estimated fair value as of December:

	2008				2007
	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total
Fixed Income Securities					
Government	$ 13,502,182	$ -	$ 445,100	$ 13,947,282	$ 14,868,045
Corporate	9,319,716	-	4,321,916	13,641,632	22,557,941
	22,821,898	-	4,767,016	27,588,914	37,425,986
Common stock	7,928,475	-	-	7,928,475	17,469,757
Mutual funds	32,977,456	7,824,543	-	40,801,999	99,477,404
Limited partnerships	-	72,437,509	62,170,571	134,608,080	169,318,993
Total	$ 63,727,829	$ 80,262,052	$ 66,937,587	$ 210,927,468	$ 323,692,140

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) during the year ended December 31, 2008:

Beginning balance	$ 70,347,882
Total losses (realized/unrealized) included in change in net assets	(17,075,764)
Purchases, issuances and settlements	13,665,469
Ending balance	$ 66,937,587

3. Investments (*continued)*

The amount of total losses for the year included in changes in net assets attributable to the change in unrealized losses relating to assets still held at December 31, 2008 were $19,758,569.

The credit and liquidity crisis in the United States has resulted in substantial volatility in the global financial markets. Consequently, the value of the Foundation's individual investments have and will fluctuate in response to changing market conditions. The amounts of losses, if any, that will be recognized in subsequent periods, cannot be determined.

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, 2008 and 2007 amounted to $654,809 and $642,199, 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 2008 and 2007 were computed as of December 31.

6. Postretirement Healthcare Benefits (*continued)*

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	Effect of 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:

	2008	2007
Benefit Obligation (Funded Status) at End of Year	$ 2,257,523	$ 2,042,066
Net postretirement benefit costs	346,287	254,755
Unrecognized actuarial gain	99,440	46,365
Benefits paid	31,390	10,653
Discount rate used	5.82%	5.75%

For measurement purposes, an 8.5% annual rate of increase in per capita cost of covered health benefits was assumed for 2008, decreasing to 5% in 2012 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:

2009	$ 91,264
2010	91,277
2011	123,045
2012	133,625
2013	164,067
5 years thereafter	884,753

7. Commitments

Leases

The Foundation leases office space in New York City and Washington D.C. under amended lease agreements. As of December 31, 2008 future minimum annual rental payments are as follows:

2009	$ 1,633,538
2010	1,617,667
2011	1,639,220
2012	1,402,199
2013	568,540
	$ 6,861,164

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 $1,777,712 in 2008 and $1,675,206 in 2007.

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 $120,300 in 2008 and $119,128 in 2007.

Investments

As of December 31, 2008, under the provisions of certain limited partnership agreements, the Foundation has unpaid commitments to contribute approximately $33,000,000 in additional capital over the next 10 years.