

**THE CHARLES A. DANA FOUNDATION,**  
**INCORPORATED AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2005



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

## INDEPENDENT AUDITORS' REPORT

To 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 as of December 31, 2005 and 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes 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, 2005 and 2004, 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  
March 27, 2006

**THE CHARLES A. DANA FOUNDATION, INCORPORATED AND AFFILIATES**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2005 AND 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 14,436,346	\$ 2,976,932
Accounts and interest receivable	662,872	780,600
Investments	300,645,833	309,120,167
Prepaid rent	1,198,983	1,293,639
Leasehold improvements, net of accumulated amortization, \$1,026,718 and \$738,843 for 2005 and 2004	<u>2,109,263</u>	<u>2,397,138</u>
Total assets	<u>\$ 319,053,297</u>	<u>\$ 316,568,476</u>

**LIABILITIES AND NET ASSETS**

Liabilities		
Accounts payable and accrued expenses	\$ 986,218	\$ 582,516
Unpaid grant awards	27,444,341	26,108,351
Federal excise tax payable	62,980	10,237
Deferred Federal excise tax	1,131,224	1,123,194
Other deferred liabilities	1,074,727	1,148,259
Postretirement benefit obligation	<u>1,478,730</u>	<u>1,592,154</u>
Total liabilities	<u>32,178,220</u>	<u>30,564,711</u>
Net assets		
Unrestricted net assets	<u>286,875,077</u>	<u>286,003,765</u>
Total liabilities and net assets	<u>\$ 319,053,297</u>	<u>\$ 316,568,476</u>

See notes to combined financial statements.



**THE CHARLES A. DANA FOUNDATION, INCORPORATED AND AFFILIATES**

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 871,312	\$ 9,969,247
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
Amortization	287,875	301,184
Realized (gains) from sale of investments	(22,711,729)	(15,716,488)
Unrealized (gains) on investments	(401,840)	(16,913,040)
Deferred Federal excise tax	8,030	530,121
Postretirement benefit obligation	(113,424)	1,592,154
Net changes in operating assets and liabilities		
Accounts and interest receivable	117,728	52,070
Prepaid rent	94,656	(1,293,639)
Accounts payable and accrued liabilities	403,702	(1,250,606)
Unpaid grant awards	1,335,990	4,425,777
Federal excise tax payable	52,743	
Other deferred liabilities	(73,532)	53,293
Net cash (used in) operating activities	<u>(20,128,489)</u>	<u>(18,249,927)</u>
Cash flows from investing activities		
Purchase of investments	(245,279,701)	(170,126,938)
Proceeds from sales of investments	<u>276,867,604</u>	<u>183,682,576</u>
Net cash provided by investing activities	<u>31,587,903</u>	<u>13,555,638</u>
Net increase (decrease) in cash	11,459,414	(4,694,289)
Cash and cash equivalents, beginning of year	<u>2,976,932</u>	<u>7,671,221</u>
Cash and cash equivalents, end of year	<u>\$ 14,436,346</u>	<u>\$ 2,976,932</u>

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.

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.

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.

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The accompanying combined financial statements are prepared on the accrual basis. All of the activity and net assets of the Foundation are unrestricted.

***Use of Estimates***

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**THE CHARLES A. DANA FOUNDATION,**  
**INCORPORATED AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

(Continued)

**2. Summary of Significant Accounting Policies**

***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. Investments in limited partnerships are carried at fair value as determined by the general partner. 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 the U.K. subsidiary is the United States dollar and was determined after evaluating operating factors. Gains and losses resulting from translation of the financial statements of the subsidiary are included in the statement of activities.

**THE CHARLES A. DANA FOUNDATION,**  
**INCORPORATED AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
(Continued)

**3. Investments**

The investment portfolio is summarized as follows:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Fixed income securities:				
Government	\$32,698,011	\$32,612,244	\$37,247,602	\$37,516,521
Corporate	<u>26,725,891</u>	<u>26,145,670</u>	<u>31,077,754</u>	<u>31,050,829</u>
	59,423,902	58,757,914	68,325,356	68,567,350
Common stock	15,052,658	20,611,581	19,875,005	29,349,115
Mutual funds	72,888,009	96,629,479	74,604,882	98,736,450
Limited partnerships	<u>96,720,048</u>	<u>124,646,859</u>	<u>90,155,548</u>	<u>112,467,252</u>
 Total	 <u>\$244,084,617</u>	 <u>\$300,645,833</u>	 <u>\$252,960,791</u>	 <u>\$309,120,167</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.

**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, 2005 and 2004 amounted to \$545,158 and \$493,477, respectively.

**THE CHARLES A. DANA FOUNDATION,**  
**INCORPORATED AND AFFILIATES.**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

(Continued)

**6. Postretirement Healthcare Benefits**

The Foundation sponsors an unfunded plan to provide certain health care benefits for retirees. The Foundation has adopted the provision of Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions. The Foundation has chosen to immediately recognize the accumulated postretirement benefit obligation of \$1,375,425 as of January 1, 2004, the effective date that the Foundation adopted this standard.

The following table sets forth the financial information for the plan for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Benefit obligation at December 31	\$1,478,730	\$1,592,154
Actuarial (gain) loss	(294,533)	139,032
Benefit costs	196,816	229,080
Benefits paid	15,707	12,351
Weighted average discount rate as of December 31	5.75%	6.25%
Assumed health care cost trend at December 31		
Health care trend rate assumed for next year		
Prior to age 65	6.88%	7.38%
Age 65 and above	6.31%	6.81%
Year that the rate reaches ultimate trend rate	2009	2008
Health care trend ultimate rate assumption	5.00%	5.50%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	\$ 57,391
2007	77,785
2008	75,873
2009	88,509
2010	81,081
5 years thereafter	599,299

Measurements used to determine the postretirement benefit obligation were computed as of January 1, 2005 and projected for December 31, 2005.

**THE CHARLES A. DANA FOUNDATION,**  
**INCORPORATED AND AFFILIATES.**

**NOTES TO COMBINED FINANCIAL STATEMENTS**  
(Continued)

7. **Commitments**

*Leases*

The Foundation leases office space in New York City and Washington D.C. under amended lease agreements. As of December 31, 2005 future minimum annual rental payments are as follows:

2006	\$ 1,532,060
2007	1,552,973
2008	1,576,455
2009	1,596,757
2010	1,617,667
2011 through August 31, 2013	<u>3,609,959</u>
	<u>\$11,485,871</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 \$1,565,090 in 2005 and \$1,445,718 in 2004.

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 began in September 2004. Rental expense included in the statement of activities amounted to \$115,950 in 2005 and \$144,128 in 2004.

*Investments*

As of December 31, 2005, under the provisions of certain limited partnership agreements, the Foundation has unpaid commitments to contribute approximately \$23,600,000 in additional capital over the next 10 years.