American Legacy Foundation And Affiliate

Consolidated Financial Report
June 30, 2011

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
American Legacy Foundation
Washington, D.C.

We have audited the accompanying consolidated balance sheets of American Legacy Foundation and Affiliate (the Foundation) as of June 30, 2011 and 2010, and the related consolidated 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Legacy Foundation and Affiliate as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Vienna, Virginia
September 28, 2011

American Legacy Foundation And Affiliate

Consolidated Balance Sheets
June 30, 2011 And 2010
(In Thousands)

Assets	**2011**	2010
Cash and cash equivalents	**$ 131,444**	$ 122,651
Investments	**888,740**	797,595
Accrued interest receivable	**394**	356
Prepaid expenses	**381**	355
Grants receivable	**239**	473
Trades to be settled	**25,704**	-
Property and equipment, net	**632**	855
1724 Mass. Ave. building, net	**27,520**	28,000
2030 M Street building, net	**24,827**	25,563
Bond issuance costs, net	**535**	569
Other assets	**168**	312
	$ 1,100,584	$ 976,729

Liabilities And Net Assets		
Liabilities		
Grants payable	**$ 144**	$ 112
Trades to be settled	**-**	748
Accrued expenses	**7,049**	7,259
Loans payable	**20,615**	21,955
Bonds payable	**28,000**	28,000
Refundable advances	**72**	126
Liability on interest rate swap agreements	**3,996**	4,588
Other liabilities	**1,103**	626
	60,979	63,414
Commitments And Contingencies (Note 9)		
Net Assets – Unrestricted	**1,039,605**	913,315
	$ 1,100,584	$ 976,729

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Activities
Years Ended June 30, 2011 And 2010
(In Thousands)

	2011	2010
Revenue and support:		
Rental income	**$ 4,513**	$ 4,381
Other income	**2,733**	3,860
Investment income, net of fees	**182,012**	117,807
Settlement proceeds:		
Public education	**109**	301
Total revenue and support	**189,367**	126,349
Expenses:		
Program expenses:		
Counter marketing, communications and government affairs	**33,435**	45,386
Grants	**5,663**	6,288
Other programs	**7,831**	9,343
Schroeder Research Institute	**2,833**	2,297
	49,762	63,314
Supporting services:		
Development	**1,467**	1,241
General and administrative	**6,194**	6,428
Building expenses	**5,654**	8,195
Total expenses	**63,077**	79,178
Change in net assets	**126,290**	47,171
Net assets:		
Beginning	**913,315**	866,144
Ending	**$ 1,039,605**	$ 913,315

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Cash Flows
Years Ended June 30, 2011 And 2010
(In Thousands)

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ 126,290**	$ 47,171
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments	**(174,370)**	(106,426)
Other investment gain	**(1,348)**	(2,692)
Depreciation	**1,640**	1,981
Change in interest rate swap agreements	**(592)**	1,632
Amortization of bond issuance costs	**34**	35
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	**(38)**	30
Trades to be settled	**(26,452)**	7,532
Other assets	**378**	440
Prepaid expenses	**(26)**	577
Grants receivable	**234**	(473)
Increase (decrease) in:		
Accrued expenses	**(210)**	(4,099)
Grants payable	**32**	(210)
Sublease liability	**-**	(139)
Refundable advances	**(54)**	6
Other liabilities	**477**	(302)
Net cash used in operating activities	**(74,005)**	(54,937)
Cash Flows From Investing Activities		
Purchase of property and equipment	**(201)**	(281)
Proceeds from sale of investments	**3,312,891**	4,794,545
Purchases of investments	**(3,228,552)**	(4,719,726)
Net cash provided by investing activities	**84,138**	74,538
Cash Flows From Financing Activities		
Principal payments on loan payable	**(1,340)**	(1,341)
Net cash used in financing activities	**(1,340)**	(1,341)
Net increase (decrease) in cash and cash equivalents	**8,793**	18,260
Cash And Cash Equivalents:		
Beginning	**122,651**	104,391
Ending	**$ 131,444**	$ 122,651
Supplemental Disclosures Of Cash Flow Information		
Cash paid for interest	**$ 1,762**	$ 1,997
Cash paid for income taxes	**$ 320**	$ 186

See Notes To Consolidated Financial Statements.

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: American Legacy Foundation and Affiliate consist of two entities: American Legacy Foundation (the Foundation) and M Street Holdings, LLC (the Company).

In November 1998, a coalition of 46 state attorneys general successfully settled their civil cases with the tobacco companies. As a result, the settling states and the participating tobacco manufacturers entered into two separate settlement agreements: the Master Settlement Agreement (MSA) and the Smokeless Tobacco Master Settlement Agreement (STMSA). The two settlement agreements provided for the establishment and initial funding of a Section 501(c)(3) organizations to reduce tobacco usage in the United States. Pursuant to these agreements, an organization named Master Settlement Agreement Foundation (MSA Foundation) was created in March 1999 and was later renamed American Legacy Foundation. The Foundation's mission is to build a world where young people reject tobacco and anyone can quit. The purpose for which the Foundation was formed is to support: (1) the study of and programs to reduce youth tobacco product usage and youth substance abuse in the United States; and (2) the study of and educational programs to prevent diseases associated with the use of tobacco products in the United States.

The Foundation is governed by a Board of Directors, which is comprised of state governors, legislators, attorneys general and experts in the medical, education and public health fields.

The functions of the Foundation shall be:

1. Carrying out a nationwide sustained advertising and education program to: (a) counter the use by youth of tobacco products; and (b) educate consumers about the cause and prevention of diseases associated with the use of tobacco products.

2. Developing and disseminating model advertising and education programs to counter the use by youth of substances that are unlawful for the use or purchase by youth, with an emphasis on reducing youth smoking; monitoring and testing the effectiveness of such model programs and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate.

3. Developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K–12 school system, including specific target programs for special at-risk populations; monitoring and testing the effectiveness of such model programs and ideas and, based on the information received from such model programs or ideas, continuing to develop and disseminate revised versions of such model programs, as appropriate.

4. Developing and disseminating criteria for the effectiveness cessation program; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate.

5. Commissioning studies, funding research, and publishing reports and factors that influence youth smoking and substance abuse, and developing strategies to address the conclusions of such studies and research.

6. Developing other innovative youth smoking and substance abuse prevention programs.

7. Providing targeted training and information for parents.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

8. Maintaining a library of Foundation-funded studies, reports and other publications related to the cause and prevention of youth smoking and substance abuse that will be open to the public.

9. Tracking and monitoring youth smoking and substance abuse, with a focus on the reason for any increases in or failures to decrease youth smoking and substance abuse, and what actions can be taken to reduce youth smoking and substance abuse.

10. Receiving, controlling, and managing contributions and funds provided by other entities for further purposes described in the Foundation's certificate of incorporation.

In order to meet the general goals and specific focus areas set forth above, the Foundation is organized into four major sections: one for administration, fiscal, personnel, legal and Board relations; a second section focusing on public education by means of counter-marketing tobacco use, public relations and government affairs; a third section focusing on grant-giving for research-commissioned studies, program initiatives related to the Foundation's goals, and the rigorous evaluation of the Foundation's programs; and a fourth section focusing on advancement of research and policy in the field of tobacco control and cessation.

In December 2002, the Foundation purchased the property at 2030 M Street, NW, Washington, D.C., through M Street Holdings, LLC, a single-member LLC, 100 percent owned by the Foundation. Space in the building was occupied by the Foundation and is now used as rental property. The Foundation's control, combined with its economic interest, supports consolidation of the Company.

A summary of the Foundation's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and the Company. All material intercompany transactions have been eliminated.

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Account Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation had no temporarily or permanently restricted net assets at June 30, 2011 and 2010.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, the Foundation considers all short-term, highly liquid debt instruments to be cash equivalents, including commercial paper, money market funds, and certificates of deposit, purchased with an original maturity of three months or less.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial risk: The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant financial risk on cash.

The Foundation invests in various equity, debt, and alternative investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Securities transactions, interest and dividends: Securities transactions are recorded on a trade-date basis and are carried at fair value. Realized gains and losses on securities transactions are determined on a specific identification basis and are included in investment income in the accompanying consolidated statements of activities. The change in the fair value of open investments is included in investment income in the accompanying consolidated statements of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

Valuation of investments and cash equivalents: Investments are presented in the consolidated financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Mutual funds, U.S. stocks, and global stocks consist of investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded on the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used.

The Foundation considers repurchase agreements, money market funds, the State Street institutional reserve fund, and deposits held at a futures broker to be cash equivalents based on the short maturity and liquidity of the assets. Accordingly, the Foundation’s management utilizes the $1 per unit price provided by the custodian of the assets as a basis for the fair value assessment.

Investments in comingled/common trust funds, hedge funds, fund of funds, private equity funds, and private equity fund of funds are valued at fair value based on the applicable percentage ownership of the underlying partnerships’ net assets as of the measurement date, as provided by the fund managers. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation’s investments in other investment partnerships generally represents the amount the Foundation would expect to receive if it were to liquidate its investment in the other investment partnerships, excluding any redemption charges that may apply.

The fund managers of underlying investment partnership funds in which the Foundation invests may utilize derivative instruments with off-balance-sheet risk. The Foundation’s exposure to risk is limited to the amount of its investment.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial instruments with off-balance-sheet risk: In connection with its trading activities, the Foundation enters into transactions with a variety of securities and derivative financial instruments. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the consolidated balance sheets.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

Concentrations of credit risk: The Foundation is engaged in various trading and brokerage activities in which counter parties primarily include broker-dealers, banks, and other financial institutions. In the event counter parties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the credit worthiness of the counter party or issuer of the instrument. It is the Foundation's policy to review, as necessary, the credit standing of each counter party.

In the normal course of its business, the Foundation enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, the Foundation. The Foundation's maximum exposure under these agreements is unknown, as this may involve future claims that could be made against the Foundation and have not yet occurred. The Foundation expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

Property and equipment: The Foundation capitalizes all property and equipment purchased with a cost of $5,000 or more. Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39½ years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease terms.

Fair value of financial instruments: The carrying amounts including cash and cash equivalents, receivables, accounts payable and accrued liabilities, and current maturities of long-term borrowings approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to the Foundation for debt with similar terms and maturities.

Interest rate swap agreements and hedging activities: The fair value of interest rate swap agreements is the estimated amount that the financial institutions would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Foundation accounts for the valuation of long-lived assets by reviewing the assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Allocation of expenses: Expenses are either directly charged to program services as incurred or proportionately allocated to functional categories, based on various allocation methods.

Income taxes: The Foundation is generally exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). In addition, the Foundation has been classified as an organization that is not a private foundation. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Company is a single-member, limited liability company (LLC) and, as such, is a “disregarded entity” for federal income tax purposes, pursuant to Section 7701 of the IRC. The Foundation had unrelated business income related to debt financed rental income during the years ended June 30, 2011 and 2010.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Foundation’s tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

New accounting standard: In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 clarifies existing fair value measurement requirements, changes certain fair value measurement principles and expands disclosure requirements that will be effective the for the fiscal year ending June 30, 2013. Management has not yet determined the impact that ASU 2011-04 will have on the Foundation’s financial statements.

Subsequent events: The Foundation evaluated subsequent events through September 28, 2011, which is the date the consolidated financial statements were issued.

(In Thousands)

Note 2. Investments

Investments at June 30, 2011 and 2010, consist of the following:

	2011	2010
Short-term investments	**$ 3,502**	$ 6,999
Mutual funds	**157,572**	150,888
U.S. stocks	**158,283**	156,538
Global stocks	**55,174**	57,512
Commingled/common trust funds	**230,175**	232,533
Hedge funds	**66,002**	22,042
Fund of funds	**68,159**	72,743
Private equity funds	**63,906**	28,716
Private equity fund of funds	**72,430**	51,882
Other	**13,537**	17,742
	$ 888,740	$ 797,595

Investment income for the years ended June 30, 2011 and 2010, consists of the following:

	2011	2010
Interest, dividends, and accretion income	**$ 12,773**	$ 13,249
Realized gain (loss) on investments	**60,078**	25,200
Unrealized gain (loss) on investments	**114,292**	81,226
Other investment gain	**1,348**	2,692
Investment fees	**(6,479)**	(4,560)
Total investment income (loss)	**$ 182,012**	$ 117,807

(In Thousands)

Note 2. Investments (Continued)

Alternative investments are less liquid than the Foundation's other investments. The following table summarizes these investments by major category:

As of June 30, 2011

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Trust Funds /				
Comingled Funds (a)	**$ 200,565**	**$ -**	**Weekly, Monthly, Bi-Monthly**	**5 – 10 days**
Hedge Funds:				
Hedge Fund – Long/Short (b)	**51,169**	**-**	**Quarterly, Annually**	**60 – 75 days**
Hedge Fund – Multi Strategy (c)	**76,905**	**-**	**Quarterly, Longer than one year**	**60 days**
Hedge Fund – Semi Liquid Credit (d)	**13,676**	**-**	**than one year**	**90 days**
Private Equity:				
Private Equity – Venture/Buyout (e)	**57,858**	**43,693**	**Longer than one year**	**Not Applicable**
Private Equity – Private Debt (f)	**46,472**	**21,500**	**Longer than one year**	**Not Applicable**
Real Assets:				
Real Assets – Commodities (g)	**29,609**	**-**	**Weekly**	**5 days**
Real Assets – Private Energy (h)	**11,474**	**32,870**	**Longer than one year**	**Not Applicable**
Real Assets – Real Estate (h)	**29,133**	**47,624**	**Longer than one year**	**Not Applicable**
	$ 516,861	**$ 145,687**		

As of June 30, 2010

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Trust Funds /				
Comingled Funds (a)	$ 210,320	$ -	Weekly, Monthly, Bi-Monthly	5 – 10 days
Hedge Funds:				
Hedge Fund – Long/Short (b)	45,827	-	Quarterly, Annually	60 – 75 days
Hedge Fund – Multi Strategy (c)	54,078	-	Quarterly, Longer than one year	60 days
Hedge Fund – Semi Liquid Credit (d)	11,622	-	than one year	90 days
Private Equity:				
Private Equity – Venture/Buyout (e)	32,387	50,403	Longer than one year	Not Applicable
Private Equity – Private Debt (f)	33,801	30,053	Longer than one year	Not Applicable
Real Assets:				
Real Assets – Commodities (g)	22,216	-	Weekly	5 days
Real Assets – Private Energy (h)	4,917	19,544	Longer than one year	Not Applicable
Real Assets – Real Estate (h)	9,493	43,458	Longer than one year	Not Applicable
	$ 424,661	$ 143,458		

Note 2. Investments (Continued)

(a) Common Trust Funds / Comingled Funds - This category invests in common trust funds and comingled funds which pursue a variety of investment strategies. Approximately 76 and 61 percent of the value of this category, focus on various mixes of equity securities, including both global and domestic securities, as well as a mix of emerging market, small, and large cap equities at June 30, 2011 and 2010, respectively. The remaining funds, representing 24 and 39 percent of the value of the funds, pursue investments in a variety of fixed income financial instruments both in the U.S. and globally at June 30, 2011 and 2010, respectively. The fair value of investments in this category has been estimated using an equivalent to a net asset value per share and is available to be redeemed at that value.

(b) Hedge Fund – Long/Short - This category includes investments in hedge funds that invest both long and short in various domestic and international common stocks. Management of the hedge funds have the ability to shift from value to growth strategies, from small to large capitalization stocks, and from a net short position to a net long position. Approximately 75 and 77 percent of the value of the category at June 30, 2011 and 2010, respectively, can be redeemed quarterly with 75 days notice. The remaining 25 and 23 percent of the value of this category at June 30, 2011 and 2010, respectively, can be fully redeemed on an annual basis with 60 days notice. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

(c) Hedge Fund – Multi-Strategy - This category invests in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. One fund within this category, representing approximately 14 and 21 percent of the value of this category at June 30, 2011 and 2010, respectively, includes a restriction that does not allow for redemptions in the first 24 months after acquisition, and another fund, representing approximately 15 and 21 percent of the value of this category, at June 30, 2011 and 2010, respectively, is a close ended fund which does not allow for redemptions. The remaining restriction period for the fund with the lock-up period was 6 months at June 30, 2011. In addition, one fund within this category, representing approximately 19 percent of the value of the category at June 30, 2011, is only available for redemption on the third anniversary of the subscription date of the Foundation's investment in the fund.

(d) Hedge Fund – Semi Liquid Credit - This category includes investments in a hedge fund that seeks to generate superior risk-adjusted returns by investing in a broad array of securities within the leveraged finance marketplace. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. This investment represents two classes of share. The first class of shares, representing approximately 62 and 54 percent of the value of the category at June 30, 2011 and 2010, respectively, is available to be redeemed annually on the anniversary date of the initial investment, and the second class of shares, representing approximately 38 and 46 percent of the value of the category, at June 30, 2011 and 2010, respectively, is illiquid and is available to be redeemed at a future date determined by the fund.

The following categories, with the exception of the Real Assets – Commodities category, include various private equity funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in these categories is that distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2011, it is probable that the investments in these categories will be liquidated at an amount different from the net asset value of the Foundation's ownership interest in partners' capital. Therefore, the fair value of the investments in this category has been estimated using recent observable transaction information received from potential buyers of the investments. It is estimated that the underlying assets of the funds within these categories would be liquidated over five to ten years.

(In Thousands)

Note 2. Investments (Continued)

The investment strategies of the funds within these categories are summarized as follows:

(e) Private Equity – Venture/Buyout - This category includes several private equity funds pursuing venture and/or buyout strategies to generate investment returns.

(f) Private Equity – Private Debt - This category includes several private equity funds focusing on private debt. The two largest funds, representing approximately 86 and 91 percent of the value within this category at June 30, 2011 and 2010, respectively, specifically focus on debt securities of companies undergoing financial distress, operating difficulties, and significant restructuring and on acquiring eligible assets, which include certain commercial mortgage-backed securities and non-agency residential mortgage-backed securities, under the Public-Private Investment Partnership, which seeks to unlock frozen credit markets and expand lending activity.

(g) Real Assets – Commodities - This category invests in a common trust fund, the objective of which is to provide long-term total return in excess of the custom Index, an equal-sector weighted version of the Goldman Sachs Commodity Index, by investing in commodity-related and fixed income instruments. The fair value of investments in this category has been estimated using an equivalent to a net asset value per share and is available to be redeemed at that value.

(h) Real Assets – Private Energy and Real Estate - These categories invest in various private equity funds focused on generating gains through investments in real assets – specifically real assets within the private energy sector and real estate ventures.

Note 3. Property And Equipment

Property and equipment and accumulated depreciation at June 30, 2011, and depreciation expense for the year ended June 30, 2011, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,287	$ 951	$ 336	$ 119
Computers and software	3 years	769	667	102	50
Office equipment	5 years	883	689	194	115
Improvements	8 – 10 years	568	568	-	-
Intangible assets	3 years	1,500	1,500	-	3
Vehicles	5 years	591	591	-	-
		5,598	4,966	632	287
1724 Mass Ave.	39½ years	29,495	1,975	27,520	568
2030 M Street	39½ years	30,756	5,929	24,827	785
		$ 65,849	$ 12,870	$ 52,979	$ 1,640

(In Thousands)

Note 3. Property And Equipment (Continued)

Property and equipment and accumulated depreciation at June 30, 2010, and depreciation expense for the year ended June 30, 2010, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,287	$ 834	$ 453	$ 172
Computers and software	3 years	1,304	1,202	102	130
Office equipment	5 years	871	574	297	152
Improvements	8 – 10 years	568	568	-	37
Intangible assets	3 years	1,500	1,497	3	127
Vehicles	5 years	718	718	-	-
		6,248	5,393	855	618
1724 Mass Ave.	39½ years	29,408	1,408	28,000	567
2030 M Street	39½ years	30,706	5,143	25,563	796
		$ 66,362	$ 11,944	$ 54,418	$ 1,981

Note 4. Loans Payable And Interest Rate Swap Agreements

The Foundation has a revolving master borrowing line with a financial institution for $10,000. This line is used for 2030 M Street financing. The effective interest rate on the line was the London InterBank Offered Rate (LIBOR) plus .60 percent and the maturity date was extended to October 31, 2011. The balance outstanding at June 30, 2011, was $10,000.

The Foundation obtained a loan with a financial institution for $20,000, with a LIBOR-based interest rate plus 25 basis points. Related to this loan, the Foundation entered into an interest rate swap agreement at a fixed rate of 5.34 percent in exchange for LIBOR plus .1 percent. The notional amount was $10,726 and $12,067 at June 30, 2011 and 2010, respectively. The Foundation's intent is to reduce overall interest expense while maintaining an acceptable level of risk from exposure to increases in interest rates. The Foundation follows the Derivatives and Hedging Topic of the Codification, which requires the Foundation to recognize all of its derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for change in fair value (i.e., gain or loss) of the derivative instrument is recognized as a component of change in net assets in the consolidated statements of activities. The Foundation has recognized a liability in the amount of $1,408 and $1,681 in the consolidated balance sheets at June 30, 2011 and 2010, respectively, and the related unrealized gain (loss) of $273 and $(256) in building expenses in the consolidated statements of activities for the years ended June 30, 2011 and 2010, respectively.

Principal payments are made over the term of the loans, with the final payment due in 2019. The balance outstanding at June 30, 2011 and 2010, was $10,615 and $11,955, respectively.

(In Thousands)

Note 4. Loans Payable And Interest Rate Swap Agreements (Continued)

Principal payments at June 30, 2011, are due in future years as follows:

Years Ending June 30,		
2012	$	11,341
2013		1,341
2014		1,341
2015		1,341
2016		1,341
Thereafter		3,910
	$	20,615

Relating to a bond transaction (See Note 5), the Foundation has entered into a second interest rate swap agreement, whereby, the Foundation has agreed to a fixed rate of 3.925 percent in exchange for a floating rate (USD-SIFMA Municipal Swap Index). The notional amount was $26,440 and $26,980 at June 30, 2011 and 2010, respectively. The Foundation has recognized a liability in the amount of $2,588 and $2,907 in the consolidated balance sheets at June 30, 2011 and 2010, respectively, and the related unrealized gain (loss) of $319 and $(1,376) in building expenses in the consolidated statements of activities for the years ended June 30, 2011 and 2010, respectively.

Note 5. Bond Transaction

The Foundation has a promissory note agreement with the District of Columbia (D.C.) through a D.C. Revenue Bonds transaction (American Legacy Foundation Issue, Series 2008). The Foundation borrowed $28,000 from D.C. with interest accruing at variable rates through a remarketing process, as stipulated in the Indenture of Trust between D.C. and the Bond Trustee. The interest rate in effect at June 30, 2011, was 0.13 percent. There are no annual required principal payments and the Foundation has the option to prepay the note in whole or in part at anytime without penalty. The note matures on December 1, 2043. However, the note may become due prior to the maturity date in certain circumstances, as stipulated in the financing agreements.

In connection with this transaction, the Foundation entered into a Standby Bond Purchase Agreement with the Bond Trustee and a financial institution, whereby, the financial institution would provide liquidity to purchase the bonds in the event the bonds were not marketable. This agreement was terminated on September 1, 2009.

On September 1, 2009, the Foundation has issued a Remarketing Memorandum, which in effect cancels the Standby Bond Purchase Agreement and provides for the Foundation to provide “self liquidity” in the event the bonds need to be re-purchased in the marketing process.

(In Thousands)

Note 6. Rental Income

The following is a schedule of approximate future minimum rental income receivable by the Foundation, as lessor, under noncancelable operating leases:

Years Ending June 30,		
2012	$	3,029
2013		4,294
2014		4,469
2015		4,598
2016		4,763
2017 – 2020		20,704
	$	41,857

Note 7. Retirement Plans

The Foundation maintains an employee 401(k) savings plan. Employees who are at least 21 years of age are eligible for enrollment and participation in the first month following the completion of 90 days of employment. The Foundation contributes 15 percent of the base compensation for each employee. Participants may elect to defer their compensation subject to statutory limitations of the Internal Revenue Service. Expenses related to the retirement plan amounted to $1,131 and $1,216 at June 30, 2011 and 2010, respectively.

The Foundation has established a deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and vested with the employees immediately. At June 30, 2011 and 2010, participants in the 457(b) plan had deferred balances; including income earned totaling $361 and $239, respectively.

The Foundation has established a deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and the participants will become fully vested by January 1, 2014, with forfeiture if employment ends either voluntarily or involuntarily before this date. At June 30, 2011 and 2010, participants in the 457(f) plan had deferred balances; including income earned totaling $670 and $320, respectively.

Note 8. Fair Value Measurements

The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required by the guidance provided by the Codification, the Foundation does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 – Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments which are generally included in this category includes equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt.

The FASB issued additional guidance for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), which, among other things, provides new guidance on classifying these investments within the fair value hierarchy. This new guidance states that if the Foundation has the ability to redeem its investments with the investee at the net asset value per share in the near term (three months following June 30, 2010), the fair value measurement of the investment is categorized as a Level 2 fair value measurement. If the Foundation does not have the ability to redeem its investment at the net asset value per share in the near term, due to a provision that allows redemptions at other times than those defined, as in the near term or funds that are in a lock-up, gate, or other redemption restriction, the investment is categorized as a Level 3 fair value measurement. This additional guidance resulted in a reclassification of some of the Foundation’s assets within the fair value hierarchy from Level 3 to Level 2 as of July 1, 2009.

In January 2010, the FASB released Accounting Standards Update No. 2010-06 (ASU 2010-06), which provided accounting guidance that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Level 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the evaluation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for interim and annual periods beginning after December 15, 2010. The Foundation adopted ASU 2010-06 during the year ended June 30, 2011.

(In Thousands)

Note 8. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2011:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Repurchase agreements	$ 45,861	$ -	$ 45,861	$ -
Money market funds	5,473	-	5,473	-
State Street institutional reserve fund	28,163	-	28,163	-
Deposits held at futures broker	17,778	17,778	-	-
Total cash equivalents	97,275	17,778	79,497	-
Short-term investments	3,502	-	3,502	-
Mutual funds				
Global Small/Mid Value	78,338	78,338	-	-
Fixed income	29,432	29,432	-	-
Emerging markets	26,299	26,299	-	-
Real estate	23,503	23,503	-	-
	157,572	157,572	-	-
U.S. stocks				
Large cap	114,432	114,432	-	-
Mid cap	23,230	23,230	-	-
Small cap	20,621	20,621	-	-
	158,283	158,283	-	-
Global stocks - developed markets	55,174	55,174	-	-
Commingled/common trust funds				
Global emerging market	54,946	-	54,946	-
U.S. small cap	38,961	-	38,961	-
Global developed market	38,294	-	38,294	-
U.S. Government bond index	36,624	-	36,624	-
Commodities	29,609	-	29,609	-
U.S. large cap	19,511	-	19,511	-
Global fixed income - TIPS	12,230	-	12,230	-
	230,175	-	230,175	-
Hedge funds				
Long/Short	12,763	-	-	12,763
Multi-Strategy	39,563	-	24,314	15,249
Semi-Liquid Credit	13,676	-	-	13,676
	66,002	-	24,314	41,688
Fund of funds				
Long/Short	42,357	-	38,406	3,951
Multi-Strategy	25,802	-	-	25,802
	68,159	-	38,406	29,753

(Continued)

(In Thousands)

Note 8. Fair Value Measurements (Continued)

	Total	Level 1	Level 2	Level 3
Private equity funds				
Venture / Buy-Out	17,186	-	-	17,186
Private Debt	23,559	-	-	23,559
Private Energy	4,239	-	-	4,239
Real Estate	18,922	-	-	18,922
	63,906	-	-	63,906
Private equity fund of funds				
Venture / Buy-Out	36,023	-	-	36,023
Private Debt	22,913	-	-	22,913
Real Estate	13,494	-	-	13,494
	72,430	-	-	72,430
Other	11,537	-	-	11,537
Total investments	886,740	371,029	296,397	219,314
	$ 984,015	$ 388,807	$ 375,894	$ 219,314
Liabilities:				
Liability on interest rate swap agreements	$ 3,996	$ -	$ 3,996	$ -

As of June 30, 2011, total investments in the consolidated balance sheets include a cost-basis investment of $2,000 which is excluded from the above table.

(In Thousands)

Note 8. Fair Value Measurements (Continued)

The table below presents the balance of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2010:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Repurchase agreements	$ 42,914	$ -	$ 42,914	$ -
Money market funds	8,173	-	8,173	-
State Street institutional reserve fund	28,104	-	28,104	-
Deposits held at futures broker	13,272	13,272	-	-
Total cash equivalents	92,463	13,272	79,191	-
Short-term investments	6,999	-	6,999	-
Mutual funds	150,888	150,888	-	-
U.S. stocks	156,538	156,538	-	-
Global stocks	57,512	57,512	-	-
Commingled/common trust funds	232,533	-	232,533	-
Hedge funds	22,042	-	-	22,042
Fund of funds	72,743	-	62,404	10,339
Private equity funds	28,716	-	-	28,716
Private equity fund of funds	51,882	-	-	51,882
Other	16,742	-	5,538	11,204
Total investments	796,595	364,938	307,474	124,183
	$ 889,058	$ 378,210	$ 386,665	$ 124,183
Liabilities:				
Liability on interest rate swap agreements	$ 4,588	$ -	$ 4,588	$ -

As of June 30, 2010, total investments in the consolidated balance sheets include a cost-basis investment of $1,000 which is excluded from the above table.

(In Thousands)

Note 8. Fair Value Measurements (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2011, are summarized as follows:

	Balance July 1, 2010	Purchases	Sales	Investment Income: Net Unrealized Gains (Losses) On Investments	Investment Income: Interest and Dividends, net of Fees	Balance June 30, 2011
Hedge funds						
Long/Short	$ 10,420	$ -	$ -	$ 2,343	$ -	$ 12,763
Multi-Strategy	-	15,000	-	249	-	15,249
Semi-Liquid Credit	11,622	-	-	2,052	2	13,676
	22,042	15,000		4,644	2	41,688
Fund of funds						
Long/Short	2,560	1,500	(826)	717	-	3,951
Multi-Strategy	10,339	15,000	-	463	-	25,802
	12,899	16,500	(826)	1,180	-	29,753
Private equity funds						
Venture / Buy-Out	9,151	7,091	(1,977)	3,186	(265)	17,186
Private Debt	13,154	8,848	(2,144)	3,459	242	23,559
Private Energy	335	4,751	(169)	(391)	(287)	4,239
Real Estate	6,077	12,589	(270)	838	(312)	18,922
	28,717	33,279	(4,560)	7,092	(622)	63,906
Private equity fund of funds						
Venture / Buy-Out	23,236	8,160	(954)	5,854	(273)	36,023
Private Debt	20,647	1,000	(1,351)	1,860	757	22,913
Real Estate	5,438	6,100	-	1,962	(6)	13,494
	49,321	15,260	(2,305)	9,676	478	72,430
Other	11,204	-	(974)	336	971	11,537
	$ 124,183	$ 80,039	$ (8,665)	$ 22,928	$ 829	$ 219,314

The changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2010, are summarized as follows:

	Balance July 1, 2009	Transfer to Level 2	Purchases	Sales	Investment Income: Net Unrealized Gains (Losses) On Investments	Investment Income: Interest and Dividends, net of Fees	Balance June 30, 2010
Commingled/common trust funds	$ 5,186	$ (5,186)	$ -	$ -	$ -	$ -	$ -
Hedge funds	18,638	-	-		3,381	23	22,042
Fund of funds	70,017	(66,809)	9,705	(705)	866	(175)	12,899
Private equity funds	5,000	-	22,197	(724)	2,536	(292)	28,717
Private equity fund of funds	27,673	-	16,491	(954)	4,007	2,104	49,321
Other	10,348	-	-	(883)	856	883	11,204
	$ 136,862	$ (71,995)	$ 48,393	$ (3,266)	$ 11,646	$ 2,543	$ 124,183

Note 8. Fair Value Measurements (Continued)

The total change in unrealized gain (loss) included in the consolidated statements of activities during the years ended June 30, 2011 and 2010, attributable to Level 3 investments held at June 30, 2011 and 2010, approximated the net unrealized gain (loss), by major class, in the preceding rollforwards of changes in Level 3 assets.

Note 9. Commitments And Contingencies

Contingency: The Foundation participates in a federally-assisted grant program that is subject to a financial and compliance audit by the federal agency or its representative. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

Line of credit: The Foundation has a line of credit with a bank with a total amount available of $40,000. Any amounts drawn on the line will bear interest at a rate of the 30-day LIBOR plus 0.65 percent. The line of credit expires on September 30, 2014. The Foundation had no amount outstanding on this line at June 30, 2011.

McGladrey

Independent Auditor's Report On The Supplementary Information

To the Board of Directors
American Legacy Foundation
Washington, D.C.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information which follows is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
September 28, 2011

American Legacy Foundation And Affiliate

Consolidated Statement Of Functional Expenses
Year Ended June 30, 2011
(In Thousands)

	Counter Marketing, Communications And Government Affairs	Grants	Other Programs	Schroeder Research Institute	Development	General And Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 2,105	$ 332	$ 2,875	$ 1,555	$ 574	$ 3,312	$ -	$ -	$ 10,753
Fringe benefits	763	131	1,042	520	213	1,148	-	-	3,817
Relocation expense	-	-	14	9	-	-	-	-	23
Long-term care	17	-	15	-	-	48	-	-	80
Deferred compensation agreements	-	-	52	17	6	215	-	-	290
	2,885	463	3,998	2,101	793	4,723	-	-	14,963
Telephone	54	4	50	211	11	174	-	-	504
Postage and shipping	12	3	9	1	20	18	-	-	63
Supplies	8	-	15	37	2	124	-	-	186
Computer expense	25	-	33	26	8	137	-	-	229
Printing and publications	26	-	75	6	47	4	-	-	158
Equipment rental, repairs and maintenance	-	-	-	-	-	34	-	-	34
Depreciation	3	-	2	1	-	281	-	-	287
Occupancy	58	-	-	-	167	-	-	-	225
Auditing, accounting, and payroll processing	-	-	-	-	-	189	-	-	189
Temporary services	26	-	9	-	11	17	-	-	63
Meetings expense	86	1	101	169	34	80	-	-	471
Survey incentives	-	-	41	-	-	-	-	-	41
Travel and lodging	184	15	303	21	56	160	-	-	739
Fellowships and scholarships	-	-	17	-	-	-	-	-	17
Sponsorship and contributions	172	-	189	2	7	-	-	-	370
Honorarium	-	-	7	-	-	2	-	-	9
Meals and entertainment	30	2	43	5	7	20	-	-	107
Professional development	24	8	27	6	17	46	-	-	128
Consulting	177	-	47	2	1	139	-	-	366
Contract services	29,353	-	2,130	82	187	106	-	-	31,858
Grants	-	5,138	430	-	-	-	-	-	5,568
Miscellaneous expense	79	1	69	24	51	213	-	-	437
Legal fees	-	-	-	-	-	119	-	-	119
Insurance	56	-	-	26	-	210	-	-	292
Building expense	-	-	-	-	-	-	2,312	3,342	5,654
Total expenses	33,258	5,635	7,595	2,720	1,419	6,796	2,312	3,342	63,077
Overhead allocations	177	28	236	113	48	(602)	-	-	-
	$ 33,435	$ 5,663	$ 7,831	$ 2,833	$ 1,467	$ 6,194	$ 2,312	$ 3,342	$ 63,077

American Legacy Foundation And Affiliate

Consolidated Statement Of Functional Expenses
Year Ended June 30, 2010
(In Thousands)

	Counter Marketing, Communications And Government Affairs	Grants	Other Programs	Schroeder Research Institute	Development	General And Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 2,070	$ 454	$ 2,949	$ 1,338	$ 381	$ 3,201	$ -	$ -	$ 10,393
Fringe benefits	783	178	1,126	428	130	1,175	-	-	3,820
Relocation expense	-	-	7	-	-	-	-	-	7
Long-term care	10	-	11	-	-	50	-	-	71
Deferred compensation agreements	-	-	-	17	-	129	-	-	146
	2,863	632	4,093	1,783	511	4,555	-	-	14,437
Telephone	57	7	63	16	7	170	-	-	320
Postage and shipping	13	5	14	2	18	14	-	-	66
Supplies	8	-	16	17	2	174	-	-	217
Computer expense	38	-	22	17	10	157	-	-	244
Printing and publications	62	-	82	7	63	5	-	-	219
Equipment rental, repairs and maintenance	-	-	-	-	-	33	-	-	33
Depreciation	12	1	1	1	-	603	-	-	618
Occupancy	-	-	-	-	187	99	-	-	286
Auditing, accounting, and payroll processing	-	-	-	-	-	214	-	-	214
Temporary services	12	-	5	-	2	4	-	-	23
Meetings expense	148	-	110	32	60	38	-	-	388
Travel and lodging	220	18	307	34	55	139	-	-	773
Fellowships/scholarships	-	-	22	-	-	-	-	-	22
Sponsorship/contributions	202	-	133	2	3	1	-	-	341
Honorarium	1	-	3	-	-	-	-	-	4
Meals and entertainment	24	3	39	9	5	18	-	-	98
Professional development	16	6	37	12	5	40	-	-	116
Consulting	210	-	59	57	31	10	-	-	367
Contract services	41,137	145	2,780	132	196	181	-	-	44,571
Grants	-	5,415	1,172	-	-	-	-	-	6,587
Miscellaneous expense	58	2	33	11	39	188	-	-	331
Legal fees	-	-	-	-	-	400	-	-	400
Insurance	59	-	-	26	-	219	-	-	304
Cost of sales	4	-	-	-	-	-	-	-	4
Building expense	-	-	-	-	-	-	4,288	3,907	8,195
Total expenses	45,144	6,234	8,991	2,158	1,194	7,262	4,288	3,907	79,178
Overhead allocations	242	54	352	139	47	(834)	-	-	-
	$ 45,386	$ 6,288	$ 9,343	$ 2,297	$ 1,241	$ 6,428	$ 4,288	$ 3,907	$ 79,178

American Legacy Foundation And Affiliate

1724 Massachusetts Avenue – Schedules Of Building Expenses
Years Ended June 30, 2011 And 2010
(In Thousands)

	2011	2010
Operating expenses:		
Real estate taxes	**$ 220**	$ 283
Utilities	**215**	192
Repairs and maintenance	**166**	135
Cleaning	**122**	118
Grounds and security	**116**	100
Administrative	**42**	51
Management fees	**30**	30
Insurance	**26**	19
Total operating expenses	**937**	928
Bond issuance amortization	**34**	35
Bond fees	**45**	196
Interest expense	**1,047**	1,186
Unrealized (gain) loss on interest rate swap	**(319)**	1,376
Depreciation	**568**	567
Total building expenses	**$ 2,312**	$ 4,288

American Legacy Foundation And Affiliate

M Street Holdings, LLC – Schedules Of Building Expenses
Years Ended June 30, 2011 And 2010
(In Thousands)

	2011	2010
Operating expenses:		
Real estate taxes	**$ 484**	$ 531
Utilities	**485**	453
Repairs and maintenance	**264**	289
Grounds and security	**160**	150
Cleaning	**165**	168
Administrative	**95**	87
Management fees	**70**	70
Insurance	**24**	31
Bad debt expense	**-**	25
Permits and other taxes	**-**	-
Legal fees	**32**	41
Leasing Costs	**11**	-
Miscellaneous Expense	**5**	-
Total operating expenses	**1,795**	1,845
Interest expense	**715**	824
Depreciation	**785**	796
Unrealized (gain) loss on interest rate swap	**(273)**	256
Income tax expense	**320**	186
Total building expenses	**$ 3,342**	$ 3,907