American Legacy Foundation And Affiliate

Consolidated Financial Report
June 30, 2012

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, 2012 and 2011, 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, 2012 and 2011, 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 LLP

Vienna, Virginia
September 21, 2012

American Legacy Foundation And Affiliate

Consolidated Balance Sheets
June 30, 2012 And 2011
(In Thousands)

Assets	**2012**	2011
Cash and cash equivalents	**$ 109,220**	$ 131,444
Investments	**868,997**	888,740
Accrued interest receivable	**3,075**	394
Prepaid expenses	**604**	381
Grants receivable	**771**	239
Trades to be settled	**468**	25,704
Property and equipment, net	**629**	632
1724 Mass. Ave. building, net	**26,994**	27,520
2030 M Street building, net	**27,165**	24,827
Bond issuance costs, net	**501**	535
Other assets	**312**	168
	$ 1,038,736	$ 1,100,584

Liabilities And Net Assets		
Liabilities		
Grants payable	**$ -**	$ 144
Accrued expenses	**7,884**	7,049
Loans payable	**19,274**	20,615
Bonds payable	**28,000**	28,000
Refundable advances	**171**	72
Liability on interest rate swap agreements	**7,851**	3,996
Other liabilities	**1,365**	1,103
	64,545	60,979
Commitments And Contingencies (Note 9)		
Net Assets – Unrestricted	**974,191**	1,039,605
	$ 1,038,736	$ 1,100,584

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Activities
Years Ended June 30, 2012 And 2011
(In Thousands)

	2012	2011
Revenue and support:		
Rental income	**$ 2,433**	$ 4,513
Other income	**4,004**	2,590
Investment (loss) income, net of fees	**(19,235)**	182,155
Settlement proceeds:		
Public education	**121**	109
Total revenue and support	**(12,677)**	189,367
Expenses:		
Program expenses:		
Counter marketing, communications and government affairs	**18,601**	33,435
Grants	**3,558**	5,663
Other programs	**10,016**	7,831
Schroeder Research Institute	**3,371**	2,833
	35,546	49,762
Supporting services:		
Development	**1,294**	1,467
General and administrative	**6,099**	6,194
Building expenses	**9,798**	5,654
Total expenses	**52,737**	63,077
Change in net assets	**(65,414)**	126,290
Net assets:		
Beginning	**1,039,605**	913,315
Ending	**$ 974,191**	$ 1,039,605

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Cash Flows
Years Ended June 30, 2012 And 2011
(In Thousands)

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	**$ (65,414)**	$ 126,290
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized loss (gain) on investments	**33,151**	(174,370)
Other investment gain	**(5,151)**	(1,348)
Depreciation	**1,610**	1,640
Change in interest rate swap agreements	**3,855**	(592)
Amortization of bond issuance costs	**34**	34
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	**(2,681)**	(38)
Trades to be settled	**25,236**	(26,452)
Other assets	**(144)**	378
Prepaid expenses	**(223)**	(26)
Grants receivable	**(532)**	234
Increase (decrease) in:		
Accrued expenses	**835**	(210)
Grants payable	**(144)**	32
Refundable advances	**99**	(54)
Other liabilities	**262**	477
Net cash used in operating activities	**(9,207)**	(74,005)
Cash Flows From Investing Activities		
Purchase of property and equipment	**(3,419)**	(201)
Proceeds from sale of investments	**4,049,098**	3,312,891
Purchases of investments	**(4,057,355)**	(3,228,552)
Net cash (used in) provided by investing activities	**(11,676)**	84,138
Cash Flows From Financing Activities		
Principal payments on loan payable	**(1,341)**	(1,340)
Net cash used in financing activities	**(1,341)**	(1,340)
Net (decrease) increase in cash and cash equivalents	**(22,224)**	8,793
Cash And Cash Equivalents:		
Beginning	**131,444**	122,651
Ending	**$ 109,220**	$ 131,444
Supplemental Disclosures Of Cash Flow Information		
Cash paid for interest	**$ 1,669**	$ 1,762
Cash paid for income taxes	**$ 358**	$ 320

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) organization 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:

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.

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.

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.

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.

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.

Developing other innovative youth smoking and substance abuse prevention programs.

Providing targeted training and information for parents.

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

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.

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.

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% owned by the Foundation. Space in the building was occupied by the Foundation and is now used as rental property.

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, 2012 and 2011.

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, 2012 and 2011.

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% 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 the guidance for accounting for uncertainty in income taxes. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

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 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 21, 2012, which is the date the consolidated financial statements were issued.

(In Thousands)

Note 2. Investments

Investments at June 30, 2012 and 2011, consist of the following:

	2012	2011
Short-term investments	$ 1,000	$ 3,502
Mutual funds	154,405	157,572
U.S. stocks	146,702	158,283
Global stocks	45,955	55,174
Commingled/common trust funds	204,811	230,175
Hedge funds	58,370	60,171
Fund of funds	52,855	64,208
Private equity funds	103,355	67,857
Private equity fund of funds	84,887	72,430
Other	16,657	19,368
	$ 868,997	$ 888,740

Investment income for the years ended June 30, 2012 and 2011, consists of the following:

	2012	2011
Interest, dividends, and accretion income	$ 14,033	$ 12,773
Realized gain on investments	16,536	60,078
Unrealized (loss) gain on investments	(49,687)	114,292
Other investment gain	5,342	1,491
Investment fees	(5,459)	(6,479)
Total investment (loss) income	$ (19,235)	$ 182,155

(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, 2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a)				
Global emerging market	$ 44,520	$ -	Monthly	10 days
U.S. small cap	32,968	-	Monthly	10 days
Global developed market	34,636	-	Monthly	10 days
U.S. Government bond index	36,564	-	Daily	3 Days
Commodities	27,026	-	Daily	Daily
U.S. large cap	18,558	-	Daily	3 Days
Global fixed income – TIPS	10,539	-	Daily	3 Days
	204,811	-		
Hedge funds				
Long/Short (b)	11,984	-	Annual	45 days
Multi-Strategy (c)	32,452	-	Monthly, Quarterly	3 – 60 days
Semi-Liquid Credit (d)	13,934	-	Longer than one year	90 days
	58,370	-		
Fund of funds				
Long/Short (e)	27,800	-	Quarterly	75 days
Multi-Strategy (f)	25,055	-	Quarterly, Longer than one year	60 – 95 days
	52,855	-		
Private equity funds				
Venture/Buy-Out (h)	24,054	13,372	Longer than one year	Not Applicable
Private Debt (i)	28,217	14,512	Longer than one year	Not Applicable
Private Energy (j)	17,551	32,987	Longer than one year	Not Applicable
Real Estate (j)	33,533	30,662	Longer than one year	Not Applicable
	103,355	91,533		
Private equity fund of funds				
Venture/Buy-Out (h)	45,145	24,491	Longer than one year	Not Applicable
Private Debt (i)	22,906	5,250	Longer than one year	Not Applicable
Real Estate (j)	16,836	8,073	Longer than one year	Not Applicable
	84,887	37,814		
Other (g)	16,657	-	Quarterly, Longer than one year	60 days, Not Applicable
	$ 520,935	$ 129,347		

(In Thousands)

Note 2. Investments (Continued)

	As Of June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a)				
Global emerging market	$ 54,946	$ -	Monthly	10 days
U.S. small cap	38,961	-	Monthly	10 days
Global developed market	38,294	-	Monthly	10 days
U.S. Government bond index	36,624	-	Daily	3 days
Commodities	29,609	-	Daily	Daily
U.S. large cap	19,511	-	Daily	3 days
Global fixed income – TIPS	12,230	-	Daily	3 days
	230,175	-		
Hedge funds				
Long/Short (b)	12,763	-	Annual	45 days
Multi-Strategy (c)	33,732	-	Monthly, Quarterly	3 – 60 days
Semi-Liquid Credit (d)	13,676	-	Longer than one year	90 days
	60,171	-		
Fund of funds				
Long/Short (e)	38,406	-	Quarterly	75 days
Multi-Strategy (f)	25,802	-	Quarterly, Longer than one year	60 – 95 days
	64,208	-		
Private equity funds				
Venture/Buy-Out (h)	17,186	20,182	Longer than one year	Not Applicable
Private Debt (i)	23,559	15,000	Longer than one year	Not Applicable
Private Energy (j)	8,190	32,870	Longer than one year	Not Applicable
Real Estate (j)	18,922	34,911	Longer than one year	Not Applicable
	67,857	102,963		
Private equity fund of funds				
Venture/Buy-Out (h)	36,023	23,511	Longer than one year	Not Applicable
Private Debt (i)	22,913	6,500	Longer than one year	Not Applicable
Real Estate (j)	13,494	12,713	Longer than one year	Not Applicable
	72,430	42,724		
Other (g)	17,368	-	Quarterly, Longer than one year	60 days, Not Applicable
	$ 512,209	$ 145,687		

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. 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 – The fund within this category invests in both long and short in various domestic and international common stocks. Management of the hedge fund has 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. The fair value of investment in this category has been estimated using the net asset value per share of the investment.

c) Hedge Fund – Multi-Strategy – The funds within this category pursue multiple strategies to diversify risk and reduce volatility. Approximately 45% of the value of category at June 2012 can be redeemed on a monthly basis with 3 days notice. The remaining 55% of the value of this category can be redeemed on a quarterly basis with 45 to 60 days notice. The fair value of investment in this category has been estimated using the net asset value per share of the investment.

d) Hedge Fund – Semi-Liquid Credit – This category includes an investment 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. This investment represents two classes of shares. The first class of shares, representing approximately 74% and 62% of the value of the category at June 30, 2012 and 2011, respectively, is available to be redeemed annually on the anniversary date of the initial investment, and the second class of shares, representing approximately 26% and 38% of the value of the category, at June 30, 2012 and 2011, respectively, is illiquid and is available to be redeemed at a future date determined by the fund. The fair value of investment in this category has been estimated using the net asset value per share of the investment.

e) Fund of Funds – Long/Short – This category includes an investment in a fund of funds that investments in hedge funds that pursue both long and short strategies in various domestic and international common stocks. Management of the fund of funds has 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. The fair value of investment in this category has been estimated using the net asset value per share of the investment.

f) Fund of Funds – Multi-Strategy – This category invests in fund of funds that invest in hedge funds with multiple strategies to diversify risk and reduce volatility. One fund within this category, representing approximately 46% and 43% of the value of this category at June 30, 2012 and 2011, allows 25% redemption per quarter with 60 days notice but cannot be redeemed in 2 consecutive quarters. The other fund within this category, representing approximately 54% and 57% of the value of the category at June 30, 2012 and 2011, respectively, is only available for redemption on the third anniversary of the subscription date of the Foundation’s investment in the fund. The fair value of investments in this category has been estimated using the net asset value per share of the investments.

g) Other – This category includes an investment fund, representing approximately 66% and 66% of the value of the category at June 30, 2012 and 2011, that seeks long-term capital appreciation by investing in and holding a diversified portfolio of revenue-producing intellectual property assets and royalty interests. The fund allows redemption to the extent that there is surplus cash available and is subject to fund management's discretion. The other investment fund within this category can be redeemed on a quarterly basis with 60 days notice.

(In Thousands)

Note 2. Investments (Continued)

The following categories include various private equity funds and private equity fund of 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, 2012, 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.

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

h) Private Equity and Private Equity Fund of Funds – Venture/Buyout – This category includes several private equity funds pursuing venture and/or buyout strategies to generate investment returns.

i) Private Equity and Private Equity Fund of Funds – Private Debt – This category includes several private equity funds focusing on private debt. The investment strategies of these funds 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.

j) Private Equity and Private Equity Fund of Funds – 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, 2012, and depreciation expense for the year ended June 30, 2012, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,306	$ 1,040	$ 266	$ 118
Computers and software	3 years	610	328	282	50
Office equipment	5 years	883	802	81	115
Improvements	5 – 10 years	568	568	-	-
Intangible assets	3 years	1,500	1,500	-	3
Vehicles	5 years	591	591	-	-
		5,458	4,829	629	286
1724 Mass. Ave.	39½ years	29,539	2,545	26,994	570
2030 M Street	39½ years	33,848	6,683	27,165	754
		$ 68,845	$ 14,057	$ 54,788	$ 1,610

(In Thousands)

Note 3. Property And Equipment (Continued)

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

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 .50% and the maturity date is October 31, 2013. The balance outstanding at June 30, 2012, 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% in exchange for LIBOR plus .1%. The notional amount was $9,385 and $10,726 at June 30, 2012 and 2011, 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 $1,488 and $1,408 in the consolidated balance sheets at June 30, 2012 and 2011, respectively, and the related unrealized (loss) gain of ($80) and $273 in building expenses in the consolidated statements of activities for the years ended June 30, 2012 and 2011, respectively.

Principal payments are made over the term of the loans, with the final payment due in 2019. The balance outstanding at June 30, 2012 and 2011, was $9,274 and $10,615, respectively.

(In Thousands)

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

Principal payments at June 30, 2012, are due in future years as follows:

Years Ending June 30,		
2013	$	11,341
2014		1,341
2015		1,341
2016		1,341
2017		1,341
Thereafter		2,569
	$	19,274

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% in exchange for a floating rate (USD-SIFMA Municipal Swap Index). The notional amount was $25,880 and $26,440 at June 30, 2012 and 2011, respectively. The Foundation has recognized a liability in the amount of $6,363 and $2,588 in the consolidated balance sheets at June 30, 2012 and 2011, respectively, and the related unrealized (loss) gain of ($3,775) and $319 in building expenses in the consolidated statements of activities for the years ended June 30, 2012 and 2011, 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, 2012, was 0.18%. 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.

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,		
2013	$	2,833
2014		4,209
2015		4,327
2016		4,434
2017		4,482
2018 – 2020		13,584
	$	33,869

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% 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 $1,480 and $1,131 at June 30, 2012 and 2011, 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, 2012 and 2011, participants in the 457(b) plan had deferred balances; including income earned totaling $430 and $361, 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, 2012 and 2011, participants in the 457(f) plan had deferred balances; including income earned totaling $864 and $670, 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 include 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.

(In Thousands)

Note 8. Fair Value Measurements (Continued)

The Foundation follows the 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 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, 2012), 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.

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, 2012:

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Repurchase agreements	$ 34,137	$ -	$ 34,137	$ -
Money market funds	3,950	-	3,950	-
State Street institutional reserve fund	14,202	-	14,202	-
Deposits held at futures broker	14,771	14,771	-	-
Total cash equivalents	67,060	14,771	52,289	-
Short-term investments	1,000	-	1,000	-
Mutual funds				
Global Small/Mid Value	72,490	72,490	-	-
Fixed income	29,514	29,514	-	-
Emerging markets	29,037	29,037	-	-
Real estate	23,364	23,364	-	-
	154,405	154,405	-	-
U.S. stocks				
Large cap	107,625	107,625	-	-
Mid cap	19,801	19,801	-	-
Small cap	19,276	19,276	-	-
	146,702	146,702	-	-
Global stocks – developed markets	45,955	45,955	-	-
Commingled/common trust funds				
Global emerging market	44,520	-	44,520	-
U.S. small cap	32,968	-	32,968	-
Global developed market	34,636	-	34,636	-
U.S. Government bond index	36,564	-	36,564	-
Commodities	27,026	-	27,026	-
U.S. large cap	18,558	-	18,558	-
Global fixed income – TIPS	10,539	-	10,539	-
	204,811	-	204,811	-
Hedge funds				
Long/Short	11,984	-	-	11,984
Multi-Strategy	32,452	-	16,983	15,469
Semi-Liquid Credit	13,934	-	-	13,934
	58,370	-	16,983	41,387

(Continued)

(In Thousands)

Note 8. Fair Value Measurements (Continued)

	Total	Level 1	Level 2	Level 3
Fund of funds				
Long/Short	**27,800**	**-**	**27,800**	**-**
Multi-Strategy	**25,055**	**-**	**-**	**25,055**
	52,855	**-**	**27,800**	**25,055**
Private equity funds				
Venture/Buy-Out	**24,054**	**-**	**-**	**24,054**
Private Debt	**28,217**	**-**	**-**	**28,217**
Private Energy	**17,551**	**-**	**-**	**17,551**
Real Estate	**33,533**	**-**	**-**	**33,533**
	103,355	**-**	**-**	**103,355**
Private equity fund of funds				
Venture/Buy-Out	**45,145**	**-**	**-**	**45,145**
Private Debt	**22,906**	**-**	**-**	**22,906**
Real Estate	**16,836**	**-**	**-**	**16,836**
	84,887	**-**	**-**	**84,887**
Other	**16,657**	**-**	**5,666**	**10,991**
Total investments	**868,997**	**347,062**	**256,260**	**265,675**
	$ 936,057	**$ 361,833**	**$ 308,549**	**$ 265,675**
Liabilities:				
Liability on interest rate swap agreements	**$ 7,851**	**$ -**	**$ 7,851**	**$ -**

American Legacy Foundation And Affiliate

Notes To Consolidated Financial Statements
(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, 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	33,732	-	18,483	15,249
Semi-Liquid Credit	13,676	-	-	13,676
	60,171	-	18,483	41,688

(Continued)

(In Thousands)

Note 8. Fair Value Measurements (Continued)

	Total	Level 1	Level 2	Level 3
Fund of funds				
Long/Short	38,406	-	38,406	-
Multi-Strategy	25,802	-	-	25,802
	64,208	-	38,406	25,802
Private equity funds				
Venture/Buy-Out	17,186	-	-	17,186
Private Debt	23,559	-	-	23,559
Private Energy	8,190	-	-	8,190
Real Estate	18,922	-	-	18,922
	67,857	-	-	67,857
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	17,368	-	5,831	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 changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2012, are summarized as follows:

				Investment Income		
	Balance June 30, 2011	Capital Calls	Distributions	Net Unrealized And Realized Gains (Losses) On Investments	Interest And Dividends, Net Of Fees	Balance June 30, 2012
Hedge funds						
Long/Short	$ 12,763	$ -	$ -	$ (779)	$ -	$ 11,984
Multi-Strategy	15,249	-	-	373	(153)	15,469
Semi-Liquid Credit	13,676	-	-	258	-	13,934
	41,688	-	-	(148)	(153)	41,387
Fund of funds						
Multi-Strategy	25,802	-	-	(747)	-	25,055
	25,802	-	-	(747)	-	25,055
Private equity funds						
Venture/Buy-Out	17,186	6,650	(3,147)	2,848	517	24,054
Private Debt	23,559	11,256	(6,654)	(344)	400	28,217
Private Energy	8,190	9,506	(594)	814	(365)	17,551
Real Estate	18,922	14,399	(2,787)	2,506	493	33,533
	67,857	41,811	(13,182)	5,824	1,045	103,355
Private equity fund of funds						
Venture/Buy-Out	36,023	7,564	(1,216)	2,890	(116)	45,145
Private Debt	22,913	1,250	(1,671)	(868)	1,282	22,906
Real Estate	13,494	2,005	(346)	1,402	281	16,836
	72,430	10,819	(3,233)	3,424	1,447	84,887
Other	11,537	-	(3,156)	1,917	693	10,991
	$ 219,314	$ 52,630	$ (19,571)	$ 10,270	$ 3,032	$ 265,675

(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 June 30, 2010	Capital Calls	Distributions	Investment Income: Net Unrealized And Realized 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						
Multi-Strategy	10,339	15,000	-	463	-	25,802
	10,339	15,000	-	463	-	25,802
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	2,895	6,251	(995)	326	(287)	8,190
Real Estate	6,077	12,589	(270)	838	(312)	18,922
	31,277	34,779	(5,386)	7,809	(622)	67,857
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 total change in unrealized gain (loss) included in the consolidated statements of activities during the years ended June 30, 2012 and 2011, attributable to Level 3 investments held at June 30, 2012 and 2011, 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%. The line of credit expires on September 30, 2014. The Foundation had no amount outstanding on this line at June 30, 2012.

McGladrey

Independent Auditor's Report On The Supplementary Information

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

McGladrey LLP

Vienna, Virginia
September 21, 2012

American Legacy Foundation And Affiliate

Consolidated Statement Of Functional Expenses
Year Ended June 30, 2012
(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	$ 2,259	$ 258	$ 3,198	$ 1,960	$ 604	$ 3,275	$ -	$ -	$ 11,554
Fringe benefits	790	114	1,167	648	230	1,116	-	-	4,065
Relocation expense	-	-	-	6	-	-	-	-	6
Long-term care	13	-	13	-	-	46	-	-	72
Deferred compensation agreements	-	-	56	17	6	214	-	-	293
	3,062	372	4,434	2,631	840	4,651	-	-	15,990
Telephone	53	3	56	196	8	173	-	-	489
Postage and shipping	12	1	30	-	4	15	-	-	62
Supplies	11	-	14	6	4	146	-	-	181
Computer expense	8	-	32	44	8	165	-	-	257
Printing and publications	67	-	32	2	6	12	-	-	119
Equipment rental, repairs and maintenance	-	-	-	-	-	41	-	-	41
Depreciation	-	-	4	1	-	281	-	-	286
Occupancy	-	-	-	-	161	-	-	-	161
Auditing, accounting, and payroll processing	-	-	-	-	-	207	-	-	207
Temporary services	-	-	-	-	5	47	-	-	52
Meetings expense	163	-	97	110	14	54	-	-	438
Survey incentives	-	-	6	1	-	-	-	-	7
Travel and lodging	260	7	321	40	53	171			852
Fellowships and scholarships	-	-	15	-	-	-	-	-	15
Sponsorship and contributions	33	-	1,234	4	-	-	-	-	1,271
Honorarium	1	-	6	-	-	-	-	-	7
Meals and entertainment	39	1	35	11	8	21	-	-	115
Professional development	21	1	59	18	5	28	-	-	132
Consulting	163	-	5	4	2	78	-	-	252
Contract services	14,409	-	3,018	131	108	79	-	-	17,745
Grants	-	3,148	273	-	-	-	-	-	3,421
Miscellaneous expense	50	2	73	46	15	260	-	-	446
Legal fees	-	-	-	-	-	69	-	-	69
Bond fees	-	-	-	-	-	-	-	-	-
Insurance	49	-	-	26	-	211	-	-	286
Building expense	-	-	-	-	-	38	6,320	3,478	9,836
Total expenses	18,401	3,535	9,744	3,271	1,241	6,747	6,320	3,478	52,737
Overhead allocations	200	23	272	100	53	(648)	-	-	-
	$ 18,601	$ 3,558	$ 10,016	$ 3,371	$ 1,294	$ 6,099	$ 6,320	$ 3,478	$ 52,737

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

1724 Massachusetts Avenue – Schedules Of Building Expenses
Years Ended June 30, 2012 And 2011
(In Thousands)

	2012	2011
Operating expenses:		
Real estate taxes	**$ 225**	$ 220
Utilities	**192**	215
Repairs and maintenance	**134**	166
Cleaning	**120**	122
Grounds and security	**92**	116
Administrative	**51**	42
Management fees	**30**	30
Insurance	**25**	26
Total operating expenses	**869**	937
Bond issuance amortization	**34**	34
Bond fees	**44**	45
Interest expense	**1,028**	1,047
Unrealized (gain) loss on interest rate swap	**3,775**	(319)
Depreciation	**570**	568
Total building expenses	**$ 6,320**	$ 2,312

American Legacy Foundation And Affiliate

M Street Holdings, LLC – Schedules Of Building Expenses
Years Ended June 30, 2012 And 2011
(In Thousands)

	2012	2011
Operating expenses:		
Real estate taxes	**$ 484**	$ 484
Utilities	**400**	485
Repairs and maintenance	**242**	264
Grounds and security	**153**	160
Cleaning	**131**	165
Administrative	**97**	95
Management fees	**48**	70
Insurance	**31**	24
Legal fees	**76**	32
Leasing costs	**21**	11
Miscellaneous expense	**-**	5
Total operating expenses	**1,683**	1,795
Interest expense	**641**	715
Depreciation	**754**	785
Unrealized loss (gain) on interest rate swap	**80**	(273)
Income tax expense	**320**	320
Total building expenses	**$ 3,478**	$ 3,342