American Legacy Foundation and Affiliate

Consolidated Financial Report
June 30, 2015

Contents

Independent Auditor's Report on the Financial Statements	1-2
Financial Statements	
Consolidated balance sheets	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6-22
Independent Auditor's Report on the Supplementary Information	23
Supplementary Information	
Consolidated statement of functional expenses – 2015	24
Consolidated statement of functional expenses – 2014	25
1724 Massachusetts Avenue – schedules of building expenses	26
M Street Holdings, LLC – schedules of building expenses	27

McGladrey

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of American Legacy Foundation and Affiliate (the Foundation) which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, in 2015, the Foundation adopted new accounting guidance related to disclosures for investments that calculate net asset value per share or its equivalent. Prior year disclosures have been revised to reflect the retrospective application of adopting this change in accounting. Our opinion is not modified with respect to this matter.

McGladrey LLP

Washington, D.C.
September 18, 2015

American Legacy Foundation and Affiliate

Consolidated Balance Sheets
June 30, 2015 and 2014
(In Thousands)

	2015	2014
Assets		
Cash and cash equivalents	$ 152,511	$ 156,345
Investments	877,648	939,983
Accounts receivable from building sale	18,792	-
Accrued interest receivable	168	221
Grants receivable	973	608
Note receivable	19,850	-
Prepaid expenses	423	893
Trades to be settled	-	426
Property and equipment, net	302	328
1724 Mass. Ave. building, net	25,447	25,870
2030 M Street building, net	-	25,979
Bond issuance costs, net	406	437
Other assets	271	417
	$ 1,096,791	$ 1,151,507
Liabilities and Net Assets		
Liabilities		
Grants payable	$ 239	$ 375
Trades to be settled	10	-
Accrued expenses	14,630	7,668
Bonds payable	28,000	28,000
Refundable advances	-	84
Liability on interest rate swap agreement	4,849	3,907
Other liabilities	1,051	926
	48,779	40,960
Commitments and Contingencies (Notes 7 and 10)		
Net Assets – Unrestricted	1,048,012	1,110,547
	$ 1,096,791	$ 1,151,507

See Notes to Consolidated Financial Statements.

American Legacy Foundation and Affiliate

Consolidated Statements of Activities
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Revenue and Support		
Rental income	**$ 2,742**	$ 2,653
Sponsored projects and other income	**2,817**	1,911
Investment income, net of fees	**22,752**	146,870
Gain on sale of building	**14,270**	-
Settlement proceeds:		
Public education	**125**	126
Total revenue and support	**42,706**	151,560
Expenses		
Program expenses:		
Counter marketing and communications	**69,001**	30,213
Evaluation science and research	**7,098**	5,432
Schroeder Research Institute	**5,972**	4,463
Grants	**3,315**	3,264
Community and youth engagement	**2,796**	3,040
Other programs	**3,879**	2,641
	92,061	49,053
Supporting services:		
General and administrative	**7,073**	6,721
Building expenses	**6,107**	5,175
Total expenses	**105,241**	60,949
Change in net assets	**(62,535)**	90,611
Net Assets		
Beginning	**1,110,547**	1,019,936
Ending	**$ 1,048,012**	$ 1,110,547

See Notes to Consolidated Financial Statements.

American Legacy Foundation and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	**$ (62,535)**	$ 90,611
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on sale of building	**(14,270)**	-
Realized and unrealized gain on investments	**(7,088)**	(131,454)
Other investment gain	**(7,933)**	(11,130)
Depreciation	**1,843**	1,787
Change in interest rate swap agreements	**942**	(923)
Amortization of bond issuance costs	**31**	32
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	**53**	156
Trades to be settled	**436**	(921)
Other assets	**146**	(254)
Prepaid expenses	**470**	(182)
Grants receivable	**(365)**	985
Increase (decrease) in:		
Accrued expenses	**6,962**	(10,733)
Grants payable	**(136)**	289
Refundable advances	**(84)**	-
Other liabilities	**125**	(1,036)
Net cash used in operating activities	**(81,403)**	(62,773)
Cash Flows From Investing Activities		
Proceeds from sale of building	**531**	-
Purchase of property and equipment	**(318)**	(467)
Proceeds from sale of investments	**378,137**	4,129,934
Purchases of investments	**(300,781)**	(4,051,208)
Net cash provided by investing activities	**77,569**	78,259
Cash Flows From Financing Activities		
Principal payments on loan payable	**-**	(17,933)
Net cash used in financing activities	**-**	(17,933)
Net decrease in cash and cash equivalents	**(3,834)**	(2,447)
Cash and Cash Equivalents		
Beginning	**156,345**	158,792
Ending	**$ 152,511**	$ 156,345
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	**$ 955**	$ 1,384
Cash paid for (refund from) income taxes	**$ 6**	$ (2)
Supplemental Schedules of Non-Cash Financing Activities		
Accounts receivable from building sale	**$ 18,792**	$ -
Issuance of note receivable from building sale	**$ 19,850**	$ -

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 achieve a culture where all youth and young adults reject tobacco.

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 MSA and the Foundation's bylaws set forth its functions as follows:

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.

The Foundation is organized around its three primary program goals: (i) youth/young adult public education (primarily through the truth® anti-tobacco counter-marketing campaign), (ii) research policy and practice including the activity of the Foundation's evaluation science research function and its Schroeder Institute for Tobacco Research and Policy Studies, and (iii) community and youth engagement activities including a youth activism program. The Foundation also has an operations function for administration, fiscal, legal, technology and personnel activities.

As of August 27, 2015, the Foundation legally changed its name to the Truth Initiative Foundation, d/b/a Truth Initiative, to reflect its objective to align all organization programs more closely with the truth campaign and consistent with its mission to achieve a culture where all youth and young adults reject tobacco. As discussed in Note 7 below, on October 1, 2015, the Foundation will also move to new headquarters at 900 G Street, Washington D.C.

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 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 determined based on the existence of donor restrictions or the absence thereof: 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, 2015 and 2014.

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 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 equities 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 their 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 Reserves 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, hedge 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 fund/partnerships' net assets as of the measurement date, as provided by the fund managers. The underlying investment funds/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 funds/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 funds and investment partnerships 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 funds and 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 funds and 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 involving 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 counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Foundation's policy to review, as necessary, the credit standing of each counterparty.

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 and buildings purchased with a cost of $5 or more at cost and depreciates them 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 of cash and cash equivalents, receivables, and payables approximate fair value because of the short maturity of these instruments. The carrying amount of bonds payable approximates fair value, because the interest rates on the bonds fluctuate with market interest rates offered to the Foundation for debt with similar terms and maturities. Investments and the interest rate swap are carried at fair value.

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 creditworthiness of the swap counterparties.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Foundation reviews long-lived 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, 2015 and 2014.

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 consolidated 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 consolidated 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 consolidated 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 2012.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounting pronouncement adopted: In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the consolidated balance sheets. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented.

The Foundation adopted this Update for the year ended June 30, 2015, and it was retrospectively applied to the year ended June 30, 2014. Prior year disclosures have been revised to reflect the retrospective application of this Update. The impact of adopting this Update is reflected in Note 9.

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

Reclassification: Certain items in the June 30, 2014, consolidated financial statements have been reclassified to comply with current year presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Foundation evaluated subsequent events through September 18, 2015, which is the date the consolidated financial statements were issued.

(In Thousands)

Note 2. Investments

Investments at June 30, 2015 and 2014, consist of the following:

	2015	2014
Mutual funds	$ 133,386	$ 142,060
U.S. stocks	112,186	121,295
Global stocks	36,003	40,839
Other investments measured at net asset value:		
Commingled/common trust funds	186,109	204,332
Hedge funds	76,271	95,790
Hedge fund of funds	27,222	39,324
Private equity funds	169,658	147,029
Private equity fund of funds	117,311	128,183
Other	19,502	21,131
	$ 877,648	$ 939,983

Investment income for the years ended June 30, 2015 and 2014, consists of the following:

	2015	2014
Interest, dividends and accretion income	$ 13,519	$ 11,143
Realized gain on investments	49,945	93,867
Unrealized (loss) gain on investments	(42,857)	37,587
Other investment gain	7,933	11,130
Investment fees	(5,788)	(6,857)
Total investment income	$ 22,752	$ 146,870

(In Thousands)

Note 2. Investments (Continued)

Alternative investments are less liquid than the Foundation's other investments. The following tables set forth additional disclosures of the Foundation's investments whose fair value is estimated using NAV per share (or its equivalent) as of June 30, 2015 and 2014.

	As of June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a)				
Emerging markets	$ 26,606	$ -	Daily	3 – 90 days
Global developed market	43,093	-	Monthly	10 days
U.S. small cap	32,484	-	Monthly	10 days
Global emerging market	21,667	-	Monthly	7 days
EM debt local currency	19,183	-	Bi-monthly	3 days
Commodities	17,075	-	Daily	Daily
U.S. large cap	20,572	-	Daily	3 days
Other	5,429	-	Monthly	60 days
	186,109	-		
Hedge funds				
Semi-liquid credit (d)	15,548	-	Quarterly, semi-annual	45 – 90 days
Multi-strategy (c)	31,298	-	Monthly, semi-annual	3 – 60 days
Long/short (b)	29,425	-	Annual, quarterly	45 – 60 days
	76,271	-		
Hedge fund of funds				
Long/short (e)	13,399	-	Quarterly	75 days
Multi-strategy (f)	13,823	-	Quarterly	95 days
	27,222	-		
Private equity funds				
Real estate (j)	43,906	14,035	Longer than one year	Not Applicable
Private energy (j)	44,684	8,939	Longer than one year	Not Applicable
Private debt (i)	43,304	20,104	Longer than one year	Not Applicable
Venture/buy-out (h)	37,764	7,143	Longer than one year	Not Applicable
	169,658	50,221		
Private equity fund of funds				
Venture/buy-out (h)	79,913	19,292	Longer than one year	Not Applicable
Private debt (i)	12,316	750	Longer than one year	Not Applicable
Real estate (j)	15,303	10,311	Longer than one year	Not Applicable
Private energy (j)	9,779	6,000	Longer than one year	Not Applicable
	117,311	36,353		
Other (g)	19,502	-	Monthly, longer than one year	60 days, Not Applicable
	$ 596,073	$ 86,574		

(In Thousands)

Note 2. Investments (Continued)

	As of June 30, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a)				
Emerging markets	$ 29,540	$ -	Daily	3 – 90 days
Global developed market	43,075	-	Monthly	10 days
U.S. small cap	33,181	-	Monthly	10 days
Global emerging market	23,994	-	Monthly	7 days
EM debt local currency	22,399	-	Bi-monthly	3 days
Commodities	21,738	-	Daily	Daily
U.S. large cap	20,364	-	Daily	3 days
U.S. government bond index	10,041	-	Daily	3 days
	204,332	-		
Hedge funds				
Semi-liquid credit (d)	35,412	-	Quarterly, semi-annual	45 – 90 days
Multi-strategy (c)	32,975	-	Monthly, semi-annual	3 – 60 days
Long/short (b)	27,403	-	Annual, quarterly	45 – 60 days
	95,790	-		
Hedge fund of funds				
Long/short (e)	23,038	-	Quarterly	75 days
Multi-strategy (f)	16,286	-	Quarterly	95 days
	39,324	-		
Private equity funds				
Real estate (j)	39,958	22,610	Longer than one year	Not Applicable
Private energy (j)	45,931	14,108	Longer than one year	Not Applicable
Private debt (i)	43,418	24,417	Longer than one year	Not Applicable
Venture/buy-out (h)	17,722	4,280	Longer than one year	Not Applicable
	147,029	65,415		
Private equity fund of funds				
Venture/buy-out (h)	86,348	37,842	Longer than one year	Not Applicable
Private debt (i)	17,205	1,750	Longer than one year	Not Applicable
Real estate (j)	14,363	4,652	Longer than one year	Not Applicable
Private energy (j)	10,267	7,800	Longer than one year	Not Applicable
	128,183	52,044		
Other (g)	21,131	-	Monthly, longer than one year	60 days, Not Applicable
	$ 635,789	$ 117,459		

Note 2. Investments (Continued)

(a.) Commingled funds/ common trust funds: This category invests in commingled funds and common trust 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 61% and 56% of the value of category at June 30, 2015 and 2014, respectively, can be redeemed on a monthly basis with three days' notice. The remaining 39% and 44% of the value of this category can be redeemed on a semi-annual basis with 60 days' notice at June 30, 2015 and 2014, respectively. 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 98% and 96% of the value of the category at June 30, 2015 and 2014, respectively, is available to be redeemed annually on the anniversary date of the initial investment, and the second class of shares, representing approximately 2% and 4% of the value of the category, at June 30, 2015 and 2014, 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.) Hedge 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.) Hedge 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. 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 emerging income fund, representing approximately 100% and 72% of the value of the category at June 30, 2015 and 2014, respectively, 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.

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, 2015 and 2014, 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 funds 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 funds 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 funds 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. Note Receivable

During the year ended June 30, 2015, the Foundation sold its building at 2030 M Street for a sale price of $39,850. A resulting gain of $14,270 has been recorded in the accompanying consolidated statement of activities. The sale was financed in part by a note receivable in the amount of $19,850. $18,792 is due to the Foundation in cash as of June 30, 2015, which is included in accounts receivable on the accompanying consolidated balance sheet, and was received on July 1, 2015. Interest accrues on the outstanding balance of the note beginning on January 1, 2016, at an annual rate of 7%. Full payment of the outstanding balance is due by July 1, 2020. The note may be prepaid at any time and is collateralized with real estate under a purchase money deed of trust.

(In Thousands)

Note 4. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2015, and depreciation expense for the year ended June 30, 2015, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,306	$ 1,290	$ 16	$ 54
Computers and software	3 years	835	653	182	94
Office equipment	5 years	925	882	43	15
Improvements	5 – 10 years	568	568	-	-
Intangible assets	3 years	1,500	1,500	-	-
Vehicles	5 years	511	450	61	30
		5,645	5,343	302	193
1724 Mass. Ave.					
Land		7,280	-	7,280	-
Building and improvements	39½ years	22,425	4,258	18,167	571
2030 M Street					
Building and improvements	39½ years	-	-	-	1,079
		$ 35,350	$ 9,601	$ 25,749	$ 1,843

Property and equipment and accumulated depreciation at June 30, 2014, and depreciation expense for the year ended June 30, 2014, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,306	$ 1,237	$ 69	$ 97
Computers and software	3 years	668	558	110	118
Office equipment	5 years	925	867	58	15
Improvements	5 – 10 years	568	568	-	-
Intangible assets	3 years	1,500	1,500	-	-
Vehicles	5 years	511	420	91	29
		5,478	5,150	328	259
1724 Mass. Ave.					
Land		7,280	-	7,280	-
Building and improvements	39½ years	22,278	3,688	18,590	539
2030 M Street					
Land		7,856	-	7,856	-
Building and improvements	39½ years	26,684	8,561	18,123	989
		$ 69,576	$ 17,399	$ 52,177	$ 1,787

(In Thousands)

Note 5. Interest Rate Swap Agreement

Relating to a bond transaction (see Note 6), the Foundation has entered into an 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 $24,060 and $24,690 at June 30, 2015 and 2014, respectively. The Foundation has recognized a liability in the amount of $4,849 and $3,907 in the consolidated balance sheets at June 30, 2015 and 2014, respectively, and the related unrealized loss of $942 and $100 in building expenses in the consolidated statements of activities for the years ended June 30, 2015 and 2014, respectively.

Note 6. 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, 2015, was .04%. There are no annual required principal payments and the Foundation has the option to prepay the note in whole or in part at any time 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. The bond contains a number of financial and non-financial covenants. At June 30, 2015 and 2014, all covenants have been met. After the sale of the building as discussed in Note 3, the Foundation paid off the bonds balance of $28,000 in full on July 31, 2015.

Note 7. Leases

During the year ended June 30, 2015, the Foundation signed a new lease for 33,216 square feet of office space, which commences on September 1, 2015, at a base rate of $52.75 per square foot. The lease term is 135 months and includes a 15-month rent abatement, annual rent escalations and an improvement allowance. The Foundation’s share of real estate taxes and operating costs are determined annually.

The Foundation also leased their former headquarters with an option for the lessee to purchase the building. The lease commences on October 1, 2015, and has a 36-month term, with an annual base rent of $1,520,000. The lease provides for annual rent escalations and a deposit is required from the lessee on July 31, 2016, to activate the option to purchase.

Future minimum lease payments to be paid under the operating lease and future minimum lease receipts are as follows:

Year Ending June 30,	Lease Payments	Lease Receipts
2016	$ -	$ 1,140,000
2017	1,047,636	1,548,500
2018	1,833,363	1,587,213
2019	1,879,197	399,238
2020	1,926,177	-
Thereafter	13,560,067	-
	$ 20,246,441	$ 4,674,950

Note 8. 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 $1,681 and $1,641 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, participants in the 457(b) plan had deferred balances; including income earned totaling $752 and $694, 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, 2017, with forfeiture if employment ends either voluntarily or involuntarily before this date. At June 30, 2015 and 2014, participants in the 457(f) plan had deferred balances; including income earned totaling $248 and $0, respectively.

Note 9. 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 9. 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, 2015:

	Total	Level 1	Level 2
Assets			
Cash equivalents:			
Repurchase agreements	$ 77,901	$ -	$ 77,901
Deposits held at futures broker	17,850	17,850	-
State Street Institutional Reserves Fund	14,244	-	14,244
Money market funds	14,152	-	14,152
Total cash equivalents	124,147	17,850	106,297
Mutual funds:			
Global small/mid value	41,093	41,093	-
Fixed income	29,880	29,880	-
Emerging markets	44,945	44,945	-
Real estate	17,468	17,468	-
	133,386	133,386	-
U.S. stocks:			
Large cap	74,913	74,913	-
Small cap	18,940	18,940	-
Mid cap	18,333	18,333	-
	112,186	112,186	-
Global stocks – developed markets	36,003	36,003	-
Other investments measured at net asset value (a)	596,073		
Total investments	877,648	281,575	-
Total assets held at fair value	$ 1,001,795	$ 299,425	$ 106,297
Liabilities			
Deferred compensation obligation	$ 1,000	$ -	$ 1,000
Liability on interest rate Swap agreement	4,849	-	4,849
Total liabilities	$ 5,849	$ -	$ 5,849

(In Thousands)

Note 9. 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, 2014:

	Total	Level 1	Level 2
Assets			
Cash equivalents:			
Repurchase agreements	$ 78,955	$ -	$ 78,955
Deposits held at futures broker	16,635	16,635	-
State Street Institutional Reserves Fund	14,234	-	14,234
Money market funds	20,585	-	20,585
Total cash equivalents	130,409	16,635	113,774
Mutual funds:			
Global small/mid value	42,224	42,224	-
Fixed income	30,370	30,370	-
Emerging markets	48,975	48,975	-
Real estate	20,491	20,491	-
	142,060	142,060	-
U.S. stocks:			
Large cap	84,411	84,411	-
Small cap	18,683	18,683	-
Mid cap	18,201	18,201	-
	121,295	121,295	-
Global stocks – developed markets	40,839	40,839	-
Other investments measured at net asset value (a)	635,789		
Total investments	939,983	304,194	-
Total assets held at fair value	$ 1,070,392	$ 320,829	$ 113,774
Liabilities			
Deferred compensation obligation	$ 694	$ -	$ 694
Liability on interest rate Swap agreement	3,907	-	3,907
Total liabilities	$ 4,601	$ -	$ 4,601

(a) In accordance with Codification topic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Note 9. Fair Value Measurements (Continued)

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers among Levels 1, 2 and 3 during the year.

Note 10. 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 $60,000. Any amounts drawn on the line will bear interest at a rate of the 30-day LIBOR plus .65%. The line of credit expires on September 30, 2016. The Foundation had no amount outstanding on this line at June 30, 2015 and 2014. The line of credit contains certain financial and non-financial covenants. At June 30, 2015, all covenants have been met.

McGladrey

Independent Auditor's Report
on the Supplementary Information

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

We have audited the consolidated financial statements of American Legacy Foundation and Affiliate (the Foundation) as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes 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 audits 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

Washington, D.C.
September 18, 2015

American Legacy Foundation and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2015
(In Thousands)

	Counter Marketing, and Communications	Grants	Evaluation Science and Research	Community and Youth Engagement	Other Programs	Schroeder Research Institute	General and Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 2,747	$ -	$ 1,226	$ 1,080	$ 1,482	$ 2,868	$ 3,787	$ -	$ -	$ 13,190
Fringe Benefits	975	-	494	391	554	1,009	1,325	-	-	4,748
Deferred Compensation Agreements	25	-	-	-	40	41	171	-	-	277
Long-Term Care	7	-	4	9	-	-	26	-	-	46
Relocation Expense	61	-	7	12	-	7	-	-	-	87
	3,815	-	1,731	1,492	2,076	3,925	5,309	-	-	18,348
Contract Services	63,491	-	5,022	299	612	1,259	215	-	-	70,898
Grants	-	3,315	121	303	-	-	-	-	-	3,739
Travel and Lodging	465	-	45	256	53	73	124	-	-	1,016
Sponsorship and Contributions	110	-	-	20	651	-	-	-	-	781
Consulting	425	-	7	2	211	14	232	-	-	891
Meetings Expense	64	-	7	139	58	42	78	-	-	388
Miscellaneous Expense	95	-	14	37	59	28	295	-	-	528
Insurance	74	-	-	-	-	34	240	-	-	348
Computer Expense	10	-	11	5	-	115	187	-	-	328
Telephone	32	-	17	21	14	30	159	-	-	273
Depreciation	30	-	-	-	-	-	163	-	-	193
Auditing, Accounting and Payroll Processing	-	-	-	-	-	-	209	-	-	209
Legal Fees	-	-	-	-	-	3	219	-	-	222
Occupancy	-	-	-	-	-	-	40	-	-	40
Meals and Entertainment	74	-	9	53	15	19	25	-	-	195
Supplies	12	-	4	7	5	51	101	-	-	180
Bank Fees	-	-	-	-	-	-	13	-	-	13
Professional Development	25	-	1	4	7	21	29	-	-	87
Printing and Publications	25	-	1	25	4	10	5	-	-	70
Survey Incentives	-	-	7	1	-	115	-	-	-	123
Surveys	-	-	13	1	-	-	-	-	-	14
Postage and Shipping	17	-	-	15	8	2	17	-	-	59
Equipment Rental, Repairs and Maintenance	-	-	-	-	-	-	41	-	-	41
Temporary Services	24	-	-	14	-	-	24	-	-	62
Study Recruitment	4	-	-	-	-	18	-	-	-	22
Recruitment Ads	14	-	1	1	1	10	7	-	-	34
Honorarium	1	-	-	7	-	-	-	-	-	8
Fellowships and Scholarships	-	-	-	18	-	-	-	-	-	18
UBIT Payments	-	-	-	-	-	-	6	-	-	6
Building Expense	-	-	-	-	-	-	-	3,530	2,577	6,107
Total expenses	68,807	3,315	7,011	2,720	3,774	5,769	7,738	3,530	2,577	105,241
Overhead Allocation	194	-	87	76	105	203	(665)	-	-	-
	$ 69,001	$ 3,315	$ 7,098	$ 2,796	$ 3,879	$ 5,972	$ 7,073	$ 3,530	$ 2,577	$ 105,241

American Legacy Foundation and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2014
(In Thousands)

	Counter Marketing and Communications	Grants	Community and Youth Engagement	Evaluation Science and Research	Other Programs	Schroeder Research Institute	General and Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 3,601	$ -	$ 1,149	$ 1,020	$ 1,319	$ 2,512	$ 3,450	$ -	$ -	$ 13,051
Fringe Benefits	1,303	-	427	371	486	856	1,207	-	-	4,650
Deferred Compensation Agreements	7	-	-	18	54	18	233	-	-	330
Long-Term Care	13	-	9	4	-	-	36	-	-	62
Relocation Expense	-	-	6	-	-	12	37	-	-	55
	4,924	-	1,591	1,413	1,859	3,398	4,963	-	-	18,148
Contract Services	23,626	-	928	3,694	66	424	188	-	-	28,926
Grants	-	3,264	56	53	-	-	-	-	-	3,373
Travel and Lodging	504	-	148	47	32	89	143	-	-	963
Sponsorship and Contributions	64	-	22	20	411	5	-	-	-	522
Consulting	180	-	-	45	-	26	129	-	-	380
Meetings Expense	47	-	92	3	108	8	111	-	-	369
Miscellaneous Expense	64	-	7	11	29	15	223	-	-	350
Insurance	56	-	-	-	-	34	244	-	-	334
Computer Expense	10	-	-	15	-	134	168	-	-	327
Telephone	49	-	19	17	13	26	151	-	-	275
Depreciation	30	-	3	-	-	-	226	-	-	259
Auditing, Accounting and Payroll Processing	1	-	-	-	-	-	193	-	-	194
Legal Fees	-	-	-	-	-	-	180	-	-	180
Occupancy	161	-	-	-	-	-	-	-	-	161
Meals and Entertainment	68	-	250	9	9	31	16	-	-	158
Supplies	22	-	3	3	2	9	117	-	-	156
Bank Fees	-	-	-	-	-	-	135	-	-	135
Professional Development	46	-	10	12	5	18	26	-	-	117
Printing and Publications	44	-	12	4	5	14	4	-	-	83
Survey Incentives	-	-	1	2	-	61	-	-	-	64
Postage and Shipping	21	-	9	-	9	3	15	-	-	57
Equipment Rental, Repairs and Maintenance	6	-	-	4	-	1	45	-	-	56
Temporary Services	9	-	8	-	-	-	32	-	-	49
Study Recruitment	-	-	-	-	-	42	-	-	-	42
Recruitment Ads	15	-	1	3	-	9	6	-	-	34
Honorarium	-	-	8	10	3	-	-	-	-	21
Fellowships and Scholarships	-	-	20	-	-	-	-	-	-	20
Loss on Sale/Disposal of Asset	20	-	-	-	-	-	-	-	-	20
Cost of Sales	3	-	-	-	-	-	-	-	-	3
UBIT Payments	-	-	-	-	-	-	(2)	-	-	(2)
Building Expense	-	-	-	-	-	-	-	2,544	2,631	5,175
Total expenses	29,970	3,264	3,188	5,365	2,551	4,347	7,313	2,544	2,631	60,949
Overhead Allocation	243	-	76	67	90	116	(592)	-	-	-
	$ 30,213	**$ 3,264**	**$ 3,264**	**$ 5,432**	**$ 2,641**	**$ 4,463**	**$ 6,721**	**$ 2,544**	**$ 2,631**	**$ 60,949**

American Legacy Foundation and Affiliate

1724 Massachusetts Avenue – Schedules of Building Expenses
Years Ended June 30, 2015 and 2014
(In Thousands)

		2015		2014
Operating Expenses				
Real estate taxes	**$**	**250**	$	194
Utilities		**168**		154
Cleaning		**119**		118
Grounds and security		**90**		87
Repairs and maintenance		**85**		112
Administrative		**58**		59
Insurance		**40**		39
Management fees		**30**		33
Total operating expenses		**840**		796
Interest Expense		**955**		978
Unrealized Loss on Interest Rate Swap		**942**		100
Depreciation		**571**		539
Legal fees		**139**		-
Bond Fees		**52**		51
Bond Issuance Amortization		**31**		80
Total building expenses	**$**	**3,530**	$	2,544

American Legacy Foundation and Affiliate

M Street Holdings, LLC – Schedules of Building Expenses
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Operating Expenses		
Real estate taxes	**$ 544**	$ 494
Utilities	**258**	274
Repairs and maintenance	**194**	258
Grounds and security	**147**	152
Cleaning	**140**	141
Administrative	**94**	99
Management fees	**44**	45
Insurance	**30**	31
Leasing costs	**-**	1
Total operating expenses	**1,451**	1,495
Depreciation	**1,079**	989
Legal fees	**47**	(19)
Interest Expense	**-**	406
Realized Loss on Interest Rate Swap	**-**	783
Unrealized Gain on Interest Rate Swap	**-**	(1,023)
Total building expenses	**$ 2,577**	$ 2,631