American Legacy Foundation and Affiliate

Consolidated Financial Report
June 30, 2014

Contents

McGladrey

Independent Auditor's Report on the Financial Statements

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, 2014 and 2013, 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, 2014 and 2013, and the change 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.

McGladrey LLP

McLean, Virginia
September 12, 2014

American Legacy Foundation and Affiliate

Consolidated Balance Sheets
June 30, 2014 and 2013
(In Thousands)

	2014	2013
Assets		
Cash and cash equivalents	**$ 156,345**	$ 158,792
Investments	**939,983**	876,125
Accrued interest receivable	**221**	377
Prepaid expenses	**893**	711
Grants receivable	**608**	1,593
Trades to be settled	**426**	-
Property and equipment, net	**328**	546
1724 Mass. Ave. building, net	**25,870**	26,436
2030 M Street building, net	**25,979**	26,515
Bond issuance costs, net	**437**	469
Other assets	**417**	163
	$ 1,151,507	$ 1,091,727
Liabilities and Net Assets		
Liabilities		
Grants payable	**$ 375**	$ 86
Trades to be settled	**-**	495
Accrued expenses	**7,668**	18,401
Loans payable	**-**	17,933
Bonds payable	**28,000**	28,000
Refundable advances	**84**	84
Liability on interest rate swap agreement	**3,907**	4,830
Other liabilities	**926**	1,962
	40,960	71,791
Commitments and Contingencies (Note 9)		
Net Assets – Unrestricted	**1,110,547**	1,019,936
	$ 1,151,507	$ 1,091,727

See Notes to Consolidated Financial Statements.

American Legacy Foundation and Affiliate

Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Revenue and Support		
Rental income	$ 2,653	$ 2,313
Other income	1,911	4,491
Investment income, net of fees	146,870	107,474
Settlement proceeds:		
Public education	126	125
Total revenue and support	151,560	114,403
Expenses		
Program expenses:		
Counter marketing, communications and government affairs	28,835	38,987
Research and evaluation	5,432	5,465
Other programs	5,681	6,182
Schroeder Research Institute	4,463	4,018
Grants	3,264	2,811
	47,675	57,463
Supporting services:		
General and administrative	6,721	6,765
Building expenses	5,175	2,982
Development	1,378	1,448
Total expenses	60,949	68,658
Change in net assets	90,611	45,745
Net Assets		
Beginning	1,019,936	974,191
Ending	$ 1,110,547	$ 1,019,936

See Notes to Consolidated Financial Statements.

American Legacy Foundation and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 90,611	$ 45,745
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments	(131,454)	(97,047)
Other investment gain	(11,053)	(7,970)
Depreciation	1,787	1,770
Change in interest rate swap agreements	(923)	(3,021)
Amortization of bond issuance costs	32	32
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	156	2,698
Trades to be settled	(921)	963
Other assets	(254)	149
Prepaid expenses	(182)	(107)
Grants receivable	985	(822)
Increase (decrease) in:		
Accrued expenses	(10,733)	10,582
Grants payable	289	86
Refundable advances	-	(87)
Other liabilities	(1,036)	532
Net cash used in operating activities	(62,696)	(46,497)
Cash Flows from Investing Activities		
Purchase of property and equipment	(467)	(479)
Proceeds from sale of investments	4,129,934	4,100,124
Purchases of investments	(4,051,285)	(4,002,235)
Net cash provided by investing activities	78,182	97,410
Cash Flows from Financing Activities		
Principal payments on loan payable	(17,933)	(1,341)
Net cash used in financing activities	(17,933)	(1,341)
Net (decrease) increase in cash and cash equivalents	(2,447)	49,572
Cash and Cash Equivalents		
Beginning	158,792	109,220
Ending	$ 156,345	$ 158,792
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 1,384	$ -
Cash refund from income taxes	$ (2)	$ -

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.

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 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, 2014 and 2013.

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, 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 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 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 credit worthiness 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 purchased with a cost of $5 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 of cash and cash equivalents, receivables, and payables approximate fair value because of the short maturity of these instruments. The carrying amount of loan and bonds payable 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 counterparties.

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, 2014 and 2013.

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 2011.

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.

Subsequent Events: The Foundation evaluated subsequent events through September 12, 2014, which is the date the consolidated financial statements were issued.

(In Thousands)

Note 2. Investments

Investments at June 30, 2014 and 2013, consist of the following:

		2014		2013
Short-Term Investments	**$**	**-**	$	1,500
Mutual Funds		**142,060**		129,286
U.S. Stocks		**121,295**		128,326
Global Stocks		**40,839**		37,815
Commingled/Common Trust Funds		**204,332**		198,676
Hedge Funds		**95,790**		89,786
Hedge Fund Fund Of Funds		**39,324**		45,567
Private Equity Funds		**147,029**		112,358
Private Equity Fund Of Funds		**128,183**		113,130
Other		**21,131**		19,681
	$	**939,983**	$	876,125

Investment income for the years ended June 30, 2014 and 2013, consists of the following:

		2014		2013
Interest, dividends, and accretion income	**$**	**11,143**	$	9,265
Realized gain on investments		**93,867**		69,324
Unrealized gain on investments		**37,587**		27,723
Other investment gain		**11,130**		8,122
Investment fees		**(6,857)**		(6,960)
Total investment income	**$**	**146,870**	$	107,474

(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, 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 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		

(In Thousands)

Note 2. Investments (Continued)

	As of June 30, 2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/Common Trust Funds (a)				
Global Emerging Market	$ 44,219	$ -	Monthly	7 days
Global Developed Market	37,338	-	Monthly	10 days
U.S. Small Cap	33,972	-	Monthly	10 days
Commodities	22,378	-	Daily	Daily
EM Debt Local currency	22,232	-	Bi-monthly	3 days
U.S. Large Cap	19,724	-	Daily	3 days
U.S. Government Bond Index	18,813	-	Daily	3 days
	198,676	-		
Hedge Funds				
Semi-Liquid Credit (d)	33,469	-	Quarterly, semi-annual	45 – 90 days
Multi-Strategy (c)	31,272	-	Monthly, semi-annual	3 – 60 days
Long/Short (b)	25,045	-	Annual, quarterly	45 – 60 days
	89,786	-		
Hedge Fund Fund of Funds				
Long/Short (e)	31,066	-	Quarterly	75 days
Multi-Strategy (f)	14,501	-	Quarterly	95 days
	45,567	-		
Private Equity Funds				
Real Estate (j)	37,967	30,487	Longer than one year	Not Applicable
Private Energy (j)	31,747	17,418	Longer than one year	Not Applicable
Private Debt (i)	31,121	19,800	Longer than one year	Not Applicable
Venture/Buy-Out (h)	11,523	8,077	Longer than one year	Not Applicable
	112,358	75,782		
Private Equity Fund of Funds				
Venture/Buy-Out (h)	69,226	43,104	Longer than one year	Not Applicable
Private Debt (i)	19,225	5,250	Longer than one year	Not Applicable
Real Estate (j)	16,109	7,082	Longer than one year	Not Applicable
Private Energy (j)	8,570	9,500	Longer than one year	Not Applicable
	113,130	64,936		
Other (g)	19,681	-	Monthly, longer than one year	60 days, Not Applicable
	$ 579,198	$ 140,718		

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.

d. 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 56% and 57% of the value of category at June 30, 2013 and 2012, respectively, can be redeemed on a monthly basis with three days notice. The remaining 44% and 43% of the value of this category can be redeemed on a semiannual basis with 60 days notice at June 30, 2014 and 2013, respectively. The fair value of investment in this category has been estimated using the net asset value per share of the investment.

b. 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 96% and 94% of the value of the category at June 30, 2014 and 2013, respectively, is available to be redeemed annually on the anniversary date of the initial investment, and the second class of shares, representing approximately 4% and 6% of the value of the category, at June 30, 2014 and 2013, 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 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 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 72% and 70% of the value of the category at June 30, 2014 and 2013, 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.

(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, 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 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, 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.	39½ years	29,558	3,688	25,870	539
2030 M Street	39½ years	34,540	8,561	25,979	989
		$ 69,576	$ 17,399	$ 52,177	$ 1,787

(In Thousands)

Note 3. Property and Equipment (Continued)

Property and equipment and accumulated depreciation at June 30, 2013, and depreciation expense for the year ended June 30, 2013, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	$ 1,306	$ 1,140	$ 166	$ 100
Computers and software	3 years	663	440	223	113
Office equipment	5 years	890	853	37	71
Improvements	5 – 10 years	568	568	-	-
Intangible assets	3 years	1,500	1,500	-	-
Vehicles	5 years	511	391	120	26
		5,438	4,892	546	310
1724 Mass. Ave.	39½ years	29,552	3,116	26,436	571
2030 M Street	39½ years	34,087	7,572	26,515	889
		$ 69,077	$ 15,580	$ 53,497	$ 1,770

Note 4. Loans Payable and Interest Rate Swap Agreements

The Foundation had a revolving master borrowing line with a financial institution for $10,000. This line was 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 was October 31, 2013. The outstanding balance of the line was $0 and $10,000 at June 30, 2014 and 2013, respectively.

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 $0 and $8,045 at June 30, 2014 and 2013, 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 $0 and $1,023 in the consolidated balance sheets at June 30, 2014 and 2013, respectively, and the related unrealized gain of $1,023 and $465 in building expenses in the consolidated statements of activities for the years ended June 30, 2014 and 2013, respectively.

During the year end June 30, 2014, the Foundation paid off the entire outstanding balance of the loan. As a result, the revolving master borrowing line and the line of credit was terminated. The Foundation recognized a realized loss on interest rate swap of $783. The balance outstanding at June 30, 2014 and 2013, was $0 and $7,933, respectively.

(In Thousands)

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

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 $24,690 and $25,295 at June 30, 2014 and 2013, respectively. The Foundation has recognized a liability in the amount of $3,907 and $3,807 in the consolidated balance sheets at June 30, 2014 and 2013, respectively, and the related unrealized (loss) gain of ($100) and $2,556 in building expenses in the consolidated statements of activities for the years ended June 30, 2014 and 2013, 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, 2014, was .05%. 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. The bond contains numbers of financial and non-financial covenants. At June 30, 2014, all covenants have been met.

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,		
2015	$	2,760
2016		2,507
2017		3,771
2018		2,554
2019		2,218
Thereafter		2,272
	$	16,082

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 $1,641 and $1,437 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, participants in the 457(b) plan had deferred balances; including income earned totaling $694 and $559, 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, 2014 and 2013, participants in the 457(f) plan had deferred balances; including income earned totaling $0 and $1,193, 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, 2014 and 2013), 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, 2014:

	Total	Level 1	Level 2	Level 3
Assets				
Cash Equivalents:				
Repurchase Agreements	$ 78,955	$ -	$ 78,955	$ -
Deposits Held At Futures Broker	16,635	16,635	-	-
State Street Institutional Reserve Fund	14,234	-	14,234	-
Money Market Funds	6,377	-	6,377	-
Total cash equivalents	116,201	16,635	99,566	-
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	-	-
Commingled/Common Trust Funds:				
Emerging Markets	29,540	-	18,927	10,613
Global Emerging Market	23,994	-	23,994	-
Global Developed Market	43,075	-	43,075	-
U.S. Small Cap	33,181	-	33,181	-
Commodities	21,738	-	21,738	-
EM Debt Local currency	22,399	-	22,399	-
U.S. Large Cap	20,364	-	20,364	-
U.S. Government Bond Index	10,041	-	10,041	-
	204,332	-	193,719	10,613
Hedge Funds:				
Multi-Strategy	32,975	-	18,384	14,591
Long/Short	27,403	-	-	27,403
Semi-Liquid Credit	35,412	-	-	35,412
	95,790	-	18,384	77,406

(Continued)

American Legacy Foundation and Affiliate

Notes to Consolidated Financial Statements
(In Thousands)

Note 8. Fair Value Measurements (Continued)

	Total	Level 1	Level 2	Level 3
Hedge Fund Fund Of Funds:				
Long/Short	$ 23,038	$ -	$ 23,038	$ -
Multi-Strategy	16,286	-	-	16,286
	39,324	-	23,038	16,286
Private Equity Funds:				
Real Estate	39,958	-	-	39,958
Private Energy	45,931	-	-	45,931
Private Debt	43,418	-	-	43,418
Venture/Buy-Out	17,722	-	-	17,722
	147,029	-	-	147,029
Private Equity Fund of Funds:				
Venture/Buy-Out	86,348	-	-	86,348
Private Debt	17,205	-	-	17,205
Real Estate	14,363	-	-	14,363
Private Energy	10,267	-	-	10,267
	128,183	-	-	128,183
Other	21,131	-	5,813	15,318
Total investments	939,983	304,194	240,954	394,835
	$ 1,056,184	$ 320,829	$ 340,520	$ 394,835
Liabilities				
Deferred Compensation Obligation	$ 694	$ -	$ 694	$ -
Liability On Interest Rate				
Swap Agreement	3,907	-	3,907	-
Total liabilities	$ 4,601	$ -	$ 4,601	$ -

(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, 2013:

	Total	Level 1	Level 2	Level 3
Assets				
Cash Equivalents:				
Repurchase Agreements	$ 71,016	$ -	$ 71,016	$ -
Deposits Held at Futures Broker	15,718	15,718	-	-
State Street Institutional Reserve Fund	14,224	-	14,224	-
Money Market Funds	11,209	-	11,209	-
Total cash equivalents	112,167	15,718	96,449	-
Short-Term Investments	1,500	-	1,500	-
Mutual Funds:				
Global Small/Mid Value	52,985	52,985	-	-
Fixed Income	28,275	28,275	-	-
Emerging Markets	28,050	28,050	-	-
Real Estate	19,976	19,976	-	-
	129,286	129,286	-	-
U.S. Stocks:				
Large Cap	91,518	91,518	-	-
Small Cap	18,490	18,490	-	-
Mid Cap	18,318	18,318	-	-
	128,326	128,326	-	-
Global Stocks – Developed Markets	37,815	37,815	-	-
Commingled/Common Trust Funds:				
Global Emerging Market	44,219	-	44,219	-
Global Developed Market	37,338	-	37,338	-
U.S. Small Cap	33,972	-	33,972	-
Commodities	22,378	-	22,378	-
EM Debt Local currency	22,232	-	22,232	-
U.S. Large Cap	19,724	-	19,724	-
U.S. Government Bond Index	18,813	-	18,813	-
	198,676	-	198,676	-
Hedge Funds:				
Multi-Strategy	31,272	-	17,875	13,397
Long/Short	25,045	-	-	25,045
Semi-Liquid Credit	33,469	-	-	33,469
	89,786	-	17,875	71,911

(Continued)

(In Thousands)

Note 8. Fair Value Measurements (Continued)

	Total	Level 1	Level 2	Level 3
Hedge Fund Fund of Funds:				
Long/Short	$ 31,066	$ -	$ 31,066	$ -
Multi-Strategy	14,501	-	-	14,501
	45,567	-	31,066	14,501
Private Equity Funds:				
Real Estate	37,967	-	-	37,967
Private Energy	31,747	-	-	31,747
Private Debt	31,121	-	-	31,121
Venture/Buy-Out	11,523	-	-	11,523
	112,358	-	-	112,358
Private Equity Fund of Funds:				
Venture/Buy-Out	69,226	-	-	69,226
Private Debt	19,225	-	-	19,225
Real Estate	16,109	-	-	16,109
Private Energy	8,570	-	-	8,570
	113,130	-	-	113,130
Other	19,681	-	5,808	13,873
Total investments	876,125	295,427	254,925	325,773
	$ 988,292	$ 311,145	$ 351,374	$ 325,773
Liabilities				
Deferred Compensation Obligation	$ 1,752	$ -	$ 1,752	$ -
Liability on Interest Rate Swap Agreements	4,830	-	4,830	-
Total liabilities	$ 6,582	$ -	$ 6,582	$ -

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.

(In Thousands)

Note 8. Fair Value Measurements (Continued)

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the Codification requires reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The following table represents the reconciliation of the Foundation's assets measured at fair value on a recurring basis using significant unobservable inputs.

The changes in Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2014, are summarized as follows:

				Investment Income		
	Balance June 30, 2013	Capital Calls	Distributions	Net Unrealized and Realized Gains on Investments	Interest and Dividends, Net of Fees	Balance June 30, 2014
Hedge Funds						
Long/Short	$ 25,045	$ -	$ (2,109)	$ 4,467	$ -	$ 27,403
Multi-Strategy	13,397	-	-	1,194	-	14,591
Semi-Liquid Credit	33,469	-	-	2,177	(234)	35,412
	71,911	-	(2,109)	7,838	(234)	77,406
Hedge Fund of Funds						
Multi-Strategy	14,501	-	-	1,785	-	16,286
	14,501	-	-	1,785	-	16,286
Private Equity Funds						
Real Estate	37,967	7,524	(10,954)	4,723	698	39,958
Private Energy	31,747	12,885	(4,561)	1,583	4,277	45,931
Private Debt	31,121	14,629	(7,286)	3,094	1,860	43,418
Venture/Buy-Out	11,523	3,798	(2,528)	5,089	(160)	17,722
	112,358	38,836	(25,329)	14,489	6,675	147,029
Private Equity Fund of Funds						
Venture/Buy-Out	69,226	14,569	(13,442)	16,098	(103)	86,348
Private Debt	19,225	3,500	(7,788)	1,919	349	17,205
Real Estate	16,109	600	(4,720)	176	2,198	14,363
Private Energy	8,570	1,700	(991)	1,076	(88)	10,267
	113,130	20,369	(26,941)	19,269	2,356	128,183
Commingled/Common Trust Funds						
Emerging Markets	-	10,100	-	613	(100)	10,613
Other	13,873	-	(913)	1,445	913	15,318
	$ 325,773	$ 59,205	$ (55,292)	$ 44,826	$ 9,710	$ 394,835

(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, 2013, are summarized as follows:

				Investment Income		
	Balance June 30, 2012	Capital Calls	Distributions	Net Unrealized and Realized Gains on Investments	Interest and Dividends, Net of Fees	Balance June 30, 2013
Hedge Funds						
Long/Short	$ 11,984	$ 10,000	$ -	$ 3,061	$ -	$ 25,045
Multi-Strategy	11,448	-	-	1,949	-	13,397
Semi-Liquid Credit	29,403	-	-	4,440	(374)	33,469
	52,835	10,000	-	9,450	(374)	71,911
Hedge Fund of Funds						
Multi-Strategy	13,607	-	-	894	-	14,501
	13,607	-	-	894	-	14,501
Private Equity Funds						
Real Estate	23,503	16,139	(5,593)	3,048	870	37,967
Private Energy	14,458	14,485	(2,341)	5,646	(501)	31,747
Private Debt	33,404	9,835	(18,434)	5,894	422	31,121
Venture/Buy-Out	9,462	2,523	(1,323)	617	244	11,523
	80,827	42,982	(27,691)	15,205	1,035	112,358
Private Equity Fund of Funds						
Venture/Buy-Out	59,737	12,339	(7,875)	5,395	(370)	69,226
Private Debt	22,906	-	(6,462)	2,739	42	19,225
Real Estate	16,836	575	(2,934)	882	750	16,109
Private Energy	7,936	2,200	(2,585)	1,203	(184)	8,570
	107,415	15,114	(19,856)	10,219	238	113,130
Other	10,991	-	(925)	2,882	925	13,873
	$ 265,675	$ 68,096	$ (48,472)	$ 38,650	$ 1,824	$ 325,773

The total change in unrealized gain (loss) included in the consolidated statements of activities during the years ended June 30, 2014 and 2013, attributable to Level 3 investments held at June 30, 2014 and 2013, 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 .65%. The line of credit expires on September 30, 2014. The Foundation had no amount outstanding on this line at June 30, 2014 and 2013. The line of credit contains certain financial and non-financial covenants. At June 30, 2014 all covenants have been met. Subsequent to the year end, the Foundation executed a new line of credit with the bank which increases the total amount available to $60,000 million, with an expiration date of September 30, 2016.

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 the American Legacy Foundation and Affiliate (the Foundation) as of and for the years ended June 30, 2014 and 2013, 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

McLean, Virginia
September 12, 2014

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

	Counter Marketing, Communications and Government Affairs	Grants	Research and Evaluation	Other Programs	Schroeder Research Institute	Development	General and Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 2,861	$ -	$ 1,020	$ 2,468	$ 2,512	$ 740	$ 3,450	$ -	$ -	$ 13,051
Fringe benefits	1,062	-	371	913	856	241	1,207	-	-	4,650
Deferred compensation agreements	7	-	18	54	18	-	233	-	-	330
Long-term care	13	-	4	9	-	-	36	-	-	62
Relocation expense	-	-	-	6	12	-	37	-	-	55
	3,943	-	1,413	3,450	3,398	981	4,963	-	-	18,148
Contract services	23,527	-	3,694	994	424	99	188	-	-	28,926
Grants	-	3,264	53	56	-	-	-	-	-	3,373
Travel and lodging	482	-	47	180	89	22	143	-	-	963
Sponsorship and contributions	64	-	20	433	5	-	-	-	-	522
Consulting	176	-	45	-	26	4	129	-	-	380
Meetings expense	37	-	3	200	8	10	111	-	-	369
Miscellaneous expense	64	-	11	37	15	-	223	-	-	350
Insurance	56	-	-	-	34	-	244	-	-	334
Computer expense	10	-	15	-	134	-	168	-	-	327
Telephone	43	-	17	32	26	6	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	64	-	9	34	31	4	16	-	-	158
Supplies	20	-	3	5	9	2	117	-	-	156
Bank fees	-	-	-	-	-	-	135	-	-	135
Professional development	35	-	12	15	18	11	26	-	-	117
Printing and publications	39	-	4	17	14	5	4	-	-	83
Survey incentives	-	-	2	1	61	-	-	-	-	64
Postage and shipping	18	-	-	18	3	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	-	3	1	9	-	6	-	-	34
Honorarium	-	-	10	11	-	-	-	-	-	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	28,642	3,264	5,365	5,515	4,347	1,328	7,313	2,544	2,631	60,949
Overhead allocation	193	-	67	166	116	50	(592)	-	-	-
	$ 28,835	$ 3,264	$ 5,432	$ 5,681	$ 4,463	$ 1,378	$ 6,721	$ 2,544	$ 2,631	$ 60,949

American Legacy Foundation and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2013
(In Thousands)

	Counter Marketing, Communications and Government Affairs	Grants	Research and Evaluation	Other Programs	Schroeder Research Institute	Development	General and Administrative	Building Fund 1724 Mass. Avenue	Building Fund 2030 M Street	Total
Salaries	$ 2,659	$ -	$ 1,028	$ 2,459	$ 2,267	$ 694	$ 3,494	$ -	$ -	$ 12,601
Fringe benefits	901	-	362	901	794	251	1,186	-	-	4,395
Deferred compensation agreements	-	-	6	46	18	6	215	-	-	291
Long-term care	13	-	4	9	-	-	45	-	-	71
Relocation expense	-	-	6	7	-	-	-	-	-	13
	3,573	-	1,406	3,422	3,079	951	4,940	-	-	17,371
Contract services	33,864	-	3,453	985	217	104	395	-	-	39,018
Grants	-	2,811	387	-	-	-	-	-	-	3,198
Sponsorship and contributions	105	-	20	891	4	-	-	-	-	1,020
Travel and lodging	467	-	53	229	51	55	156	-	-	1,011
Meetings expense	129	-	1	170	156	67	70	-	-	593
Consulting	157	-	-	8	5	-	174	-	-	344
Insurance	86	-	-	-	31	-	222	-	-	339
Depreciation	27	-	-	3	-	-	280	-	-	310
Telephone	57	-	18	37	19	9	163	-	-	303
Computer expense	16	-	26	12	50	-	127	-	-	231
Auditing, accounting, and payroll processing	3	-	-	-	-	-	205	-	-	208
Printing and publications	69	-	5	67	36	10	3	-	-	190
Miscellaneous expense	46	-	8	55	17	10	255	-	-	391
Occupancy	-	-	-	-	-	161	-	-	-	161
Meals and entertainment	67	-	8	29	20	12	17	-	-	153
Supplies	21	-	4	11	6	7	102	-	-	151
Professional development	16	-	8	46	16	4	40	-	-	130
Study recruitment	-	-	-	-	119	-	-	-	-	119
Postage and shipping	36	-	-	26	3	5	19	-	-	89
Legal fees	-	-	-	-	-	-	87	-	-	87
Temporary services	38	-	4	-	-	-	34	-	-	76
Survey incentives	-	-	-	-	55	-	-	-	-	55
Recruitment Ads	16	-	2	1	28	4	2	-	-	53
Equipment rental, repairs and maintenance	4	-	-	1	-	-	40	-	-	45
Fellowships and scholarships	-	-	-	15	-	-	-	-	-	15
UBIT payments	-	-	-	-	-	-	7	-	-	7
Cost of sales	4	-	-	-	-	-	-	-	-	4
Honorarium	-	-	-	4	-	-	-	-	-	4
Building expense	-	-	-	-	-	-	-	(26)	3,008	2,982
Total expenses	38,801	2,811	5,403	6,012	3,912	1,399	7,338	(26)	3,008	68,658
Overhead allocation	186	-	62	170	106	49	(573)	-	-	-
	$ 38,987	$ 2,811	$ 5,465	$ 6,182	$ 4,018	$ 1,448	$ 6,765	$ (26)	$ 3,008	$ 68,658

American Legacy Foundation and Affiliate

1724 Massachusetts Avenue – Schedules of Building Expenses
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Operating Expenses		
Real estate taxes	**$ 194**	$ 213
Utilities	**154**	212
Repairs and maintenance	**112**	126
Cleaning	**118**	111
Grounds and security	**87**	92
Administrative	**59**	60
Management fees	**33**	30
Insurance	**39**	34
Total operating expenses	**796**	878
Bond Issuance Amortization	**80**	32
Bond Fees	**51**	48
Interest Expense	**978**	1,001
Unrealized (Gain) Loss on Interest Rate Swap	**100**	(2,556)
Depreciation	**539**	571
Total building expenses	**$ 2,544**	$ (26)

American Legacy Foundation and Affiliate

M Street Holdings, LLC – Schedules of Building Expenses
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	2013
Operating Expenses		
Real estate taxes	**$ 494**	$ 442
Utilities	**274**	346
Repairs and maintenance	**258**	312
Grounds and security	**152**	161
Cleaning	**141**	142
Administrative	**99**	99
Management fees	**45**	40
Insurance	**31**	31
Bad debt expense	**-**	127
Legal fees	**(19)**	143
Leasing costs	**1**	225
Total operating expenses	**1,476**	2,068
Interest Expense	**406**	557
Depreciation	**989**	889
Realized Loss on Interest Rate Swap	**783**	
Unrealized (Gain) Loss on Interest Rate Swap	**(1,023)**	(465)
Income Tax Expense	**-**	(41)
Total building expenses	**$ 2,631**	$ 3,008