

American Legacy Foundation And Affiliate

Consolidated Financial Report
June 30, 2006

McGladrey & Pullen
Certified Public Accountants

Contents

Independent Auditor's Report On The Financial Statements	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements Of Activities	3
Consolidated Statements Of Cash Flows	4
Notes To Consolidated Financial Statements	5 - 12
<hr/>	
Independent Auditor's Report On The Supplementary Information	13
Supplementary Information	
Consolidated Statement Of Functional Expenses - 2006	14
Consolidated Statement Of Functional Expenses - 2005	15
M Street Holdings, LLC - Statements of Expenses	16

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of American Legacy Foundation and Affiliate (the Foundation) as of June 30, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Foundation for the year ended June 30, 2005, were audited by other auditors whose report, dated August 26, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Bethesda, Maryland
August 25, 2006

American Legacy Foundation And Affiliate

Consolidated Balance Sheets

June 30, 2006 And 2005

(In Thousands)

Assets	2006	2005*
Cash and Cash Equivalents	\$ 178,940	\$ 152,701
Investments, at market	969,263	909,195
Accrued Interest Receivable	817	639
Loan Receivable	-	820
Prepaid Expenses	511	805
Asset on Interest Rate Swap Agreement	291	-
Trades to be Settled	-	769
Property and Equipment, net	3,325	2,617
2030 M Street Building, net	27,572	34,662
Other Assets	428	569
Total assets	\$ 1,181,147	\$ 1,102,777
Liabilities And Net Assets		
Liabilities		
Grants payable	\$ 1,899	\$ 431
Trades to be settled	10,204	-
Accrued expenses	8,056	8,642
Loans payable	77,318	79,480
Sublease liability	777	658
Liability on interest rate swap agreement	-	1,166
Other liabilities	101	208
Total liabilities	98,355	90,585
Net Assets - Unrestricted	1,082,792	1,012,192
Total liabilities and net assets	\$ 1,181,147	\$ 1,102,777

* Reclassified to conform to current year presentation.

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Activities
 Years Ended June 30, 2006 And 2005
 (In Thousands)

	2006	2005*
Revenue and Support		
Settlement proceeds:		
Base	\$ 25,000	\$ 25,000
Public education	937	3,687
Smokeless tobacco	14,880	13,187
Investment income	127,886	103,122
Other income	7,655	6,415
Total revenue and support	176,358	151,411
Expenses		
Program expenses:		
Counter marketing, communications and policy	62,620	71,685
Grants	16,457	14,626
Other programs	13,177	17,967
Total program expenses	92,254	104,278
General and administrative	9,591	17,027
Building expenses	3,913	4,238
Total expenses	105,758	125,543
Change in net assets	70,600	25,868
Net Assets		
Beginning	1,012,192	986,324
Ending	\$ 1,082,792	\$ 1,012,192

* Reclassified to conform to current year presentation.

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Consolidated Statements Of Cash Flows Years Ended June 30, 2006 And 2005 (In Thousands)

	2006	2005*
Cash Flows From Operating Activities		
Change in net assets	\$ 70,600	\$ 25,868
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Realized and unrealized gain on investments	(101,188)	(84,890)
Other investment (gain) loss	(2,145)	60
(Gain) on sale of fixed assets	(344)	-
Depreciation	1,960	1,897
Change in interest rate swap agreement asset/liability	(1,457)	1,166
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	(178)	(42)
Loan receivable	820	58
Trades to be settled, net	10,973	(2,999)
Other assets	141	415
Prepaid expenses	294	(212)
Decrease (increase) in:		
Accrued expenses	(586)	(9,115)
Grants payable	1,468	(1,304)
Sublease liability	119	(191)
Other long-term liability	(107)	95
Net cash (used in) operating activities	(19,630)	(69,194)
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	6,932	-
Purchase of property and equipment	(2,166)	(1,772)
Proceeds from sale of investments	5,913,611	5,003,478
Purchases of investments	(5,870,346)	(4,956,400)
Net cash provided by investing activities	48,031	45,306
Cash Flows From Financing Activities		
Principal payments on loan payable	(2,162)	(1,398)
Net cash (used in) financing activities	(2,162)	(1,398)
Net increase (decrease) in cash and cash equivalents	26,239	(25,286)
Cash And Cash Equivalents		
Beginning	152,701	177,987
Ending	\$ 178,940	\$ 152,701
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	\$ 3,669	\$ 2,706
Cash paid for income taxes	\$ 99	\$ 153

* Reclassified to conform to current year presentation.

See Notes To Consolidated Financial Statements.

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

American Legacy Foundation and Affiliate consists of two entities: American Legacy Foundation (the Foundation) and M Street Holdings, LLC.

In November 1998, a coalition of 46 state attorney generals 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 later renamed American Legacy Foundation (the Foundation). The Foundation's mission is to build a world where young people will reject tobacco and anyone can quit. The purpose for which the Foundation was formed is to support (1) the study of and programs to reduce youth tobacco product usage and youth substance abuse in the United States, and (2) the study of and educational programs to prevent diseases associated with the use of tobacco products in the United States.

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

The functions of the Foundation shall be:

1. Carrying out a nationwide sustained advertising and education program to: (a) counter the use by youth of tobacco products, and (b) educate consumers about the cause and prevention of diseases associated with the use of tobacco products;
2. Developing and disseminating model advertising and education programs to counter the use by youth of substances that are unlawful for the use or purchase by youth, with an emphasis on reducing youth smoking; monitoring and testing the effectiveness of such model programs and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate;
3. Developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K-12 school system, including specific target programs for special at-risk populations, monitoring and testing the effectiveness of such model programs and ideas and, based on the information received from such model programs or ideas, continuing to develop and disseminate revised versions of such model programs, as appropriate;
4. Developing and disseminating criteria for the effectiveness cessation program; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate;
5. Commissioning studies, funding research, and publishing reports and factors that influence youth smoking and substance abuse, and developing strategies to address the conclusions of such studies and research;
6. Developing other innovative youth smoking and substance abuse prevention programs;
7. Providing targeted training and information for parents;

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

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

8. Maintaining a library of Foundation-funded studies, reports and other publications related to the cause and prevention of youth smoking and substance abuse that will be open to the public;
9. Tracking and monitoring youth smoking and substance abuse, with a focus on the reason for any increases in, or failures to decrease, youth smoking and substance abuse and what actions can be taken to reduce youth smoking and substance abuse; and
10. Receiving, controlling, and managing contributions and funds provided by other entities for further purposes described in the Foundation's certificate of incorporation.

In order to meet the general goals and specific focus areas set forth above, the Foundation is organized into three major sections; one for administration, fiscal, personnel, legal and board relations; another section focusing on public education by means of counter-marketing of tobacco use, public relations and policy; and a third section focusing on grant-giving for research-commissioned studies, program initiatives related to the Foundation's goals, strategic partnerships, and the rigorous evaluation of the Foundation's programs.

In December 2002, the Foundation purchased the property at 2030 M Street, MW, Washington, D.C. through M Street Holdings, LLC, a single-member LLC, 100 percent owned by the Foundation. Space in the building is occupied by the Foundation as well as leased to other tenants. The Foundation's control, combined with its economic interest, supports consolidation of M Street Holdings, LLC.

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 inter-company transactions have been eliminated.

Basis of accounting: The accompanying 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 financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation has no temporarily or permanently restricted net assets at June 30, 2006 and 2005.

Cash and cash equivalents: For purposes of the 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.

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.

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

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

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 financial statements.

Investments: Investments are recorded at fair value as determined by quoted market prices. Realized and unrealized gains and losses are recorded as a component of investment income in the statements of activities.

Inventory: Inventory consists of bracelets, pins, necklaces and keychains and is stated at the lower of cost, or market. Management determines the allowance for obsolete inventory by identifying nonmarketable items and by using historical experience applied to recent sales. There is no allowance for obsolescence, based on management's evaluation of the salability of inventory at June 30, 2006 and 2005.

Property and equipment: The Foundation capitalizes all property and equipment purchased with a cost of \$2,500 or more. Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to 39 ½ years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease terms.

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

Valuation of long-lived assets: The Foundation accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed 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 assets to future undiscounted net cash flows expected to be generated by the assets. 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.

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

Revenue and support: The Foundation receives revenue that is derived from the two settlement agreements: the MSA and the STMSA. Certain payments received pursuant to the settlement agreements can be utilized at the Foundation's discretion. Other payments are intended to assist the Foundation in carrying out a nationwide sustained advertising and education program.

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

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

Revenue and support (continued): These agreements contain various provisions and conditions that ultimately will determine the amount and timing of payments to be received. Consequently, revenue is recognized at the time payments either are received or can be reasonably estimated and are receivable.

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

Advertising: Advertising costs are expensed as incurred.

Income taxes: The Foundation is generally exempt from Federal income tax under Internal Revenue Code 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. M Street Holding, LLC, is a single-member LLC and, as such, is a "disregarded entity" for Federal income tax purposes, pursuant to Section 7701 of the Code. For the years ended June 30, 2006 and 2005, the Foundation had unrelated business income related to debt financed rental income.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the 2005 financial statements have been reclassified to conform with the 2006 presentation. These reclassifications had no effect on the previously reported change in net assets.

Note 2. Investments

Investments at June 30, 2006 and 2005, consist of the following:

	2006	2005
U.S. and global government bonds	\$ 131,147	\$ 132,481
Inflation hedging	60,196	60,777
U.S. equity securities	375,349	360,828
Non-U.S. securities	221,430	195,651
Venture/private equity	531	-
Emerging markets	79,871	67,833
Absolute/hedge funds	100,739	91,625
	<u>\$ 969,263</u>	<u>\$ 909,195</u>

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

Note 2. Investments (Continued)

Investment income for the year ended June 30, 2006 and 2005, consists of the following:

	2006	2005
Interest, dividends, and accretion income	\$ 24,553	\$ 18,292
Realized and unrealized gain on investments	101,188	84,890
Other investment (loss) gain	2,145	(60)
Total investment return	\$ 127,886	\$ 103,122

Custodial and investment advisory fees of \$3,946 and \$3,784 for fiscal years 2006 and 2005, respectively, are reflected in general and administrative expenses on the consolidated statement of activities.

Note 3. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2006 and 2005, consists of the following:

	Estimated Useful Lives	2006			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 to 10 years	\$ 1,393	\$ 748	\$ 645	\$ 190
Computers	3 years	2,888	1,442	1,446	721
Office equipment	5 years	877	391	486	171
Improvements	8 to 10 years	568	352	216	61
Intangible assets	3 years	650	129	521	131
Vehicles	5 years	1,419	1,408	11	15
		7,795	4,470	3,325	1,289
Building and improvements	39 1/2 years	29,678	2,106	27,572	671
		\$ 37,473	\$ 6,576	\$ 30,897	\$ 1,960
		2005			
	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 to 10 years	\$ 1,167	\$ 553	\$ 614	\$ 162
Computers	3 years	2,091	1,171	920	532
Office equipment	5 years	814	339	475	139
Improvements	8 to 10 years	876	293	583	60
Vehicles	5 years	1,419	1,394	25	261
		6,367	3,750	2,617	1,154
Building and improvements	39 1/2 years	36,454	1,792	34,662	743
		\$ 42,821	\$ 5,542	\$ 37,279	\$ 1,897

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

Note 4. Loans Payable

The Foundation has a revolving master borrowing line with a financial institution for \$30,000. The effective interest rate on the line is the London Interbank Offered Rate (LIBOR) plus .10 percent as established on the first business day of each month by the British Bankers Association (BBA). The note will mature on January 31, 2007, unless extended. The balance outstanding at June 30, 2006 and 2005, is \$30,000.

The Foundation has another revolving master borrowing line with a financial institution for \$30,000. This line is used for operating expenses. The effective interest rate on the line is LIBOR plus .10 percent as established on the first business day of each month by the BBA. The note will mature on June 30, 2007, unless extended. The balance outstanding at June 30, 2006 and 2005, is \$30,000.

On June 30, 2004, the Foundation obtained a 15-year loan with a financial institution for \$20,000, with a LIBOR-based interest rate plus 25 basis points. In addition, the Foundation entered into an interest-rate swap agreement at a fixed rate of 5.34 percent in exchange for LIBOR plus 0.10 percent. The notional amount was \$17,430 at June 30, 2006. 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 has adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires the Foundation to recognize all of its derivative instruments as either assets or liabilities in the balance sheet 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 changes in net assets in the statement of activities. The Foundation has recognized an asset (liability) at June 30, 2006 and 2005, in the amount of \$291 and (\$1,166), respectively, in the consolidated balance sheet, and the related unrealized gain (loss) of \$1,457 and (\$1,166) as a component of changes in net assets in the consolidated statement of activities as of June 30, 2006 and 2005, respectively.

Principal payments are made over the term of the loan with final payment due in 2019. The balance outstanding at June 30, 2006 and 2005, is \$17,318 and \$18,660.

Principal payments at June 30, 2006, are due in future years as follows:

Year Ending June 30,	
2007	\$ 61,229
2008	1,341
2009	1,341
2010	1,341
2011	1,341
Thereafter	10,725
	<u>\$ 77,318</u>

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

Note 5. Rental Income

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

Year Ending June 30,	
2007	\$ 3,022
2008	3,138
2009	3,256
2010	3,362
2011	3,522
2012 to 2013	2,351
	<u>\$ 18,651</u>

Note 6. Retirement Plans

The Foundation maintains an employees' 401(k) savings plan. Effective in January 2004, the Foundation combined the defined contribution money purchase plan into the 401(k) savings plan.

Employees who are at least 21 years of age are eligible for enrollment and participation in the first month following the completion of 90 days of employment. The Foundation contributes 15 percent of the base compensation for each employee. Participants may elect to defer up to 10 percent of their compensation subject to statutory limitations. Expenses related to the retirement plan amounts to \$959 and \$899 for the years ended June 30, 2006 and 2005, respectively.

Note 7. Related-Party Transactions

In September 2002, the Foundation provided a \$968 mortgage loan to the President/CEO secured through a note on the D.C. property purchased, as well as other personal assets. The term of the loan was for seven years, with an amortization rate of 15 years, at a fixed interest rate of 4.99 percent. The mortgage loan was funded through an unsecured direct bank loan to the Foundation with the same terms. The loan receivable and loan payable were paid off in October 2005. The balance of the loan due to the Foundation, and, in turn, the financial institution at June 30, 2006 and 2005, is \$0 and \$820, respectively.

American Legacy Foundation And Affiliate

Notes To Financial Statements (In Thousands)

Note 8. Commitments and Contingencies

Operating Leases

The Foundation leases office space and equipment under non-cancelable operating lease agreements. Minimum future lease payments are as follows:

Years Ending June 30,	Minimum Lease Commitments	Sublease Offset	Net Lease Commitment
2007	\$ 691	\$ 419	\$ 272
2008	704	521	183
2009	719	534	185
2010	547	410	137
	<u>\$ 2,661</u>	<u>\$ 1,884</u>	<u>\$ 777</u>

On January 31, 2000, the Foundation entered into a lease agreement for office space with 15,043 square feet under a 10-year term, and an additional 6,379 square feet under a five-year term that ended in March 2005. The lease includes scheduled rent increases, which are being amortized on a straight-line basis over the term of the lease. Total operating lease expenses under all office and equipment leases were \$151 and \$879 for the years ended June 30, 2006 and 2005, respectively. The Foundation has a sublease liability in the amount of \$777 and \$658 for the years ended June 30, 2006 and 2005, respectively, stemming from rental space at 1001 G Street, for which the Foundation is still under contract. The liability will be reduced ratably over the life of the lease.

Note 9. Sale of Property

On August 2, 2005, the Foundation sold 22,206 square feet, out of 107,564 total square feet, of their office building located at 2030 M Street, NW, Washington, DC, for \$6,932, resulting in a gain of approximately \$344.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

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

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplementary information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information for the year ended June 30, 2006, has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The supplementary information for the year ended June 30, 2005, was audited by other auditors whose report, dated August 26, 2005, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Bethesda, Maryland
August 25, 2006

American Legacy Foundation And Affiliate

Consolidating Statement Of Functional Expenses

Year Ended June 30, 2006

(In Thousands)

	Counter-marketing Communications and Policy	Grants	Other Programs	General and Administrative	Building	Total
Salaries	\$ 1,536	\$ 573	\$ 2,944	\$ 2,364	\$ -	\$ 7,417
Fringe benefits	604	249	1,202	510	-	2,565
Total salaries and fringe	2,140	822	4,146	2,874	-	9,982
Occupancy	-	-	-	151	-	151
Telephone	41	5	78	106	-	230
Postage and shipping	29	6	27	20	-	82
Supplies	20	1	16	128	-	165
Computer expense	20	45	19	202	-	286
Printing and publications	192	1	56	24	-	273
Equipment rental, repairs and maintenance	1	-	1	34	-	36
Depreciation	109	6	13	1,161	671	1,960
Auditing/accounting/payroll processing	-	-	-	136	-	136
Advertising	29	-	32	10	-	71
Temporary services	32	-	16	31	-	79
Meeting expense	260	-	1,268	99	-	1,627
Travel and lodging	258	47	400	137	-	842
Fellowships/scholarships	-	-	15	-	-	15
Sponsorship/contributions	368	32	232	11	-	643
Honorarium	-	13	13	-	-	26
Meals and entertainment	22	5	61	17	-	105
Professional development	11	14	19	56	-	100
Emergency preparedness	-	-	-	244	-	244
Consulting	18	1	369	171	-	559
Contract services	57,593	43	2,080	16	-	59,732
Grants	891	15,168	3,229	-	-	19,288
Custodial and investment advisory fees	-	-	-	3,946	-	3,946
Legal fees	-	4	1	627	-	632
Insurance	5	-	-	238	-	243
Cost of sales	-	-	56	-	-	56
Interest expense	-	-	-	2,260	1,409	3,669
Unrealized (gain) on interest rate swap	-	-	-	(1,457)	-	(1,457)
Other building operating expenses	-	-	-	-	1,734	1,734
Income tax expense	-	-	-	-	99	99
Other expenses	54	42	25	83	-	204
Total expenses	62,093	16,255	12,172	11,325	3,913	105,758
Overhead allocations	527	202	1,005	(1,734)	-	-
	\$ 62,620	\$ 16,457	\$ 13,177	\$ 9,591	\$ 3,913	\$ 105,758

American Legacy Foundation And Affiliate

Consolidating Statement Of Functional Expenses Year Ended June 30, 2005 (In Thousands)

	Counter-marketing Communications and Policy	Grants	Other Programs	General and Administrative	Building	Total
Salaries	\$ 2,040	\$ 684	\$ 2,267	\$ 2,145	\$ -	\$ 7,136
Fringe benefits	792	291	910	459	-	2,452
Total salaries and fringe	2,832	975	3,177	2,604	-	9,588
Occupancy	-	-	-	(36)	-	(36)
Telephone	45	4	43	100	-	192
Postage and shipping	35	9	34	19	-	97
Supplies	13	1	89	92	-	195
Computer expense	24	12	28	160	-	224
Printing and publications	231	10	94	24	-	359
Equipment rental, repairs and maintenance	-	-	-	65	-	65
Depreciation	336	4	84	730	743	1,897
Auditing/accounting/payroll processing	-	-	-	149	-	149
Advertising	18	1	13	11	-	43
Temporary services	18	-	19	31	-	68
Meeting expense	142	5	1,095	7	-	1,249
Travel and lodging	242	48	405	210	-	905
Sponsorship/contributions	555	11	432	-	-	998
Honorarium	2	21	100	-	-	123
Meals and entertainment	32	4	63	34	-	133
Professional development	34	15	28	24	-	101
Employee morale	-	-	-	-	-	-
Consulting	43	-	789	224	-	1,056
Contract services	64,749	103	2,660	284	-	67,796
Grants	1,791	13,210	8,169	-	-	23,170
Custodial and investment advisory fees	-	-	-	3,784	-	3,784
Legal fees	-	-	1	6,931	-	6,932
Insurance	4	-	-	276	-	280
Cost of sales	-	-	74	-	-	74
Interest expense	-	-	-	1,281	1,425	2,706
Unrealized loss on interest rate swap	-	-	-	1,166	-	1,166
Other building operating expenses	-	-	-	-	1,917	1,917
Income tax expense	-	-	-	-	153	153
Other expenses	45	23	14	77	-	159
Total expenses	71,191	14,456	17,411	18,247	4,238	125,543
Overhead allocations	494	170	556	(1,220)	-	-
	\$ 71,685	\$ 14,626	\$ 17,967	\$ 17,027	\$ 4,238	\$ 125,543

American Legacy Foundation And Affiliate

M Street Holdings, LLC - Statement Of Functional Expenses
 Years Ended June 30, 2006 and 2005
 (In Thousands)

	2006	2005
Building Expenses		
Operating expenses:		
Cleaning	\$ 143	\$ 155
Repairs and maintenance	324	279
Grounds and security	131	165
Administrative	102	126
Management fees	66	74
Insurance	26	23
Utilities	390	397
Permits and other taxes	28	22
Miscellaneous	1	1
Real estate taxes	502	645
Legal fees	17	24
Bad debt expense	4	6
Total operating expenses	1,734	1,917
Interest expense	1,409	1,425
Income tax expense	99	153
Depreciation	671	743
Total building expenses	\$ 3,913	\$ 4,238