

ACTION ON SMOKING AND HEALTH
Washington, DC

FINANCIAL STATEMENTS
December 31, 2009 and 2008

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8
SUPPLEMENTAL INFORMATION	17
Combining Statement of Activities	18

Independent Auditor's Report

Board of Trustees
Action On Smoking and Health
Washington, DC

We have audited the accompanying statements of financial position of Action on Smoking and Health (the Organization), as of December 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of December 31, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Clifton Gunderson LLP

Calverton, Maryland
July 7, 2010

FINANCIAL STATEMENTS

**ACTION ON SMOKING AND HEALTH
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 3,060,097	\$ 2,008,446
Grants receivable	200,000	1,200,000
Prepaid expenses and other assets	60,025	12,381
Investments	4,225,644	4,371,546
Furniture, equipment and leasehold improvements, net	<u>40,673</u>	<u>49,832</u>
TOTAL ASSETS	<u>\$ 7,586,439</u>	<u>\$ 7,642,205</u>
LIABILITIES		
Accounts payable	\$ 78,669	\$ 267,677
Accrued expenses and other liabilities	<u>205,068</u>	<u>203,397</u>
Total liabilities	<u>283,737</u>	<u>471,074</u>
NET ASSETS		
Unrestricted:		
Undesignated	2,228,073	1,916,025
Board-designated	<u>723,019</u>	<u>723,019</u>
Total unrestricted net assets	2,951,092	2,639,044
Temporarily restricted	1,813,758	1,994,235
Permanently restricted	<u>2,537,852</u>	<u>2,537,852</u>
Total net assets	<u>7,302,702</u>	<u>7,171,131</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,586,439</u>	<u>\$ 7,642,205</u>

The accompanying notes are an integral part of the financial statements.

**ACTION ON SMOKING AND HEALTH
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2009 and 2008**

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND PUBLIC SUPPORT								
Contributions and grants	\$ 3,191,660	\$ 272,972	\$ -	\$ 3,464,632	\$ 4,380,567	\$ 1,457,285	\$ -	\$ 5,837,852
Investment income	147,510	374,521	-	522,031	(137,256)	(649,916)	-	(787,172)
Net assets released from restrictions	<u>827,970</u>	<u>(827,970)</u>	<u>-</u>	<u>-</u>	<u>640,473</u>	<u>(640,473)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and public support	<u>4,167,140</u>	<u>(180,477)</u>	<u>-</u>	<u>3,986,663</u>	<u>4,883,784</u>	<u>166,896</u>	<u>-</u>	<u>5,050,680</u>
EXPENSES								
Program services:								
Public education	2,911,064	-	-	2,911,064	2,788,260	-	-	2,788,260
Legal action	<u>379,663</u>	<u>-</u>	<u>-</u>	<u>379,663</u>	<u>408,707</u>	<u>-</u>	<u>-</u>	<u>408,707</u>
Total program services	3,290,727	-	-	3,290,727	3,196,967	-	-	3,196,967
Management and general	368,742	-	-	368,742	347,396	-	-	347,396
Fundraising	<u>195,623</u>	<u>-</u>	<u>-</u>	<u>195,623</u>	<u>196,150</u>	<u>-</u>	<u>-</u>	<u>196,150</u>
Total expenses	<u>3,855,092</u>	<u>-</u>	<u>-</u>	<u>3,855,092</u>	<u>3,740,513</u>	<u>-</u>	<u>-</u>	<u>3,740,513</u>
CHANGE IN NET ASSETS	<u>312,048</u>	<u>(180,477)</u>	<u>-</u>	<u>131,571</u>	<u>1,143,271</u>	<u>166,896</u>	<u>-</u>	<u>1,310,167</u>
NET ASSETS, BEGINNING OF YEAR	2,639,044	1,994,235	2,537,852	7,171,131	2,221,589	1,101,523	2,537,852	5,860,964
Net asset reclassification based on change in law	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(725,816)</u>	<u>725,816</u>	<u>-</u>	<u>-</u>
NET ASSETS, BEGINNING OF YEAR AND RESTATEMENT	<u>2,639,044</u>	<u>1,994,235</u>	<u>2,537,852</u>	<u>7,171,131</u>	<u>1,495,773</u>	<u>1,827,339</u>	<u>2,537,852</u>	<u>5,860,964</u>
NET ASSETS, END OF YEAR	<u>\$ 2,951,092</u>	<u>\$ 1,813,758</u>	<u>\$ 2,537,852</u>	<u>\$ 7,302,702</u>	<u>\$ 2,639,044</u>	<u>\$ 1,994,235</u>	<u>\$ 2,537,852</u>	<u>\$ 7,171,131</u>

The accompanying notes are an integral part of the financial statements.

**ACTION ON SMOKING AND HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2009**

	<u>Legal Action</u>	<u>Public Education</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
EXPENSES						
Salaries and wages	\$ 236,266	\$ 641,204	\$ 877,470	\$ 79,312	\$ 41,735	\$ 998,517
Consultants	944	720,697	721,641	84,885	42,325	848,851
Travel	5,705	587,355	593,060	69,688	34,131	696,879
Special programs	-	583,143	583,143	68,605	34,303	686,051
Fringe benefits	37,216	120,920	158,136	12,616	7,382	178,134
Office space	23,480	81,500	104,980	12,351	6,175	123,506
Communications	1,148	81,793	82,941	20,589	5,191	108,721
Professional services	9,702	76,035	85,737	14,737	5,560	106,034
Miscellaneous	2,969	64,461	67,430	7,933	3,967	79,330
Grants expense	-	55,123	55,123	6,485	3,242	64,850
Printing and publications	-	38,189	38,189	-	12,730	50,919
Postage and shipping	9,388	17,450	26,838	4,078	3,604	34,520
Insurance	10,980	16,166	27,146	2,171	1,543	30,860
Payroll taxes	15,192	11,599	26,791	707	792	28,290
Office supplies	3,635	19,801	23,436	2,757	1,379	27,572
Dues and subscriptions	11,939	5,793	17,732	5,248	3,274	26,254
Repairs and maintenance	8,185	9,208	17,393	2,046	1,023	20,462
Depreciation and amortization	2,914	10,127	13,041	1,534	767	15,342
TOTAL EXPENSES	<u>\$ 379,663</u>	<u>\$ 2,911,064</u>	<u>\$ 3,290,727</u>	<u>\$ 368,742</u>	<u>\$ 195,623</u>	<u>\$3,855,092</u>
PERCENTAGE OF TOTAL EXPENSES	10%	75%	85%	10%	5%	100%

The accompanying notes are an integral part of the financial statements.

**ACTION ON SMOKING AND HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2008**

	<u>Legal Action</u>	<u>Public Education</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
EXPENSES						
Salaries and wages	\$ 223,026	\$ 625,525	\$ 848,551	\$ 77,913	\$ 40,696	\$ 967,160
Consultants	920	762,350	763,270	89,783	44,776	897,829
Travel	227	456,129	456,356	53,685	26,815	536,856
Special programs	-	349,296	349,296	41,094	20,547	410,937
Fringe benefits	77,360	110,967	188,327	9,708	7,087	205,122
Office space	31,822	86,985	118,807	13,977	6,989	139,773
Grants expense	-	114,750	114,750	13,500	6,750	135,000
Printing and publications	-	66,268	66,268	-	22,089	88,357
Professional services	5,029	48,143	53,172	8,666	3,396	65,234
Communications	1,302	33,072	34,374	16,327	2,376	53,077
Miscellaneous	546	35,546	36,092	4,246	2,123	42,461
Postage and shipping	10,631	19,514	30,145	4,589	4,066	38,800
Payroll taxes	20,661	15,775	36,436	962	1,077	38,475
Insurance	11,069	19,413	30,482	2,555	1,739	34,776
Office supplies	4,508	18,908	23,416	2,755	1,377	27,548
Repairs and maintenance	10,268	11,552	21,820	2,567	1,284	25,671
Dues and subscriptions	7,856	7,334	15,190	3,867	2,362	21,419
Depreciation and amortization	3,482	6,733	10,215	1,202	601	12,018
TOTAL EXPENSES	<u>\$ 408,707</u>	<u>\$ 2,788,260</u>	<u>\$ 3,196,967</u>	<u>\$ 347,396</u>	<u>\$ 196,150</u>	<u>\$ 3,740,513</u>
PERCENTAGE OF TOTAL EXPENSES	11%	75%	86%	9%	5%	100%

The accompanying notes are an integral part of the financial statements.

**ACTION ON SMOKING AND HEALTH
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008**

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 131,571	\$ 1,310,167
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,342	12,018
Net realized and unrealized losses (gains) on investments	(435,969)	946,607
Donated investments	(1,000)	(9,878)
Effects of changes in operating assets and liabilities:		
Grants receivable	1,000,000	(1,200,000)
Prepaid expenses and other assets	(47,644)	19,831
Accounts payable, accrued expenses, and other liabilities	<u>(187,337)</u>	<u>87,460</u>
Net cash provided by operating activities	<u>474,963</u>	<u>1,166,205</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,183)	(16,344)
Purchase of investments	(672,794)	(1,778,712)
Proceeds from sale of investments	<u>1,255,665</u>	<u>533,656</u>
Net cash provided by (used in) investing activities	<u>576,688</u>	<u>(1,261,400)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,051,651	(95,195)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,008,446</u>	<u>2,103,641</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,060,097</u>	<u>\$ 2,008,446</u>

The accompanying notes are an integral part of the financial statements.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Action On Smoking and Health (the Organization) is a nonprofit organization, tax exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization was formed in 1967 for the purpose of using legal action and public education as weapons against the hazards of smoking and to protect the rights of the non-smoking majority. Today the Organization operates the following programs:

- Legal action – The Organization defends the rights of non-smokers and fights the problems that smoking creates.
- Public education – The Organization strives to raise public awareness on the dangers of smoking and second hand smoke. The Organization also wants to make the public cognizant of their rights and the legal protections through the media, newsletters, and direct mail.

Significant accounting policies followed by the Organization are presented below.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits and all highly liquid investments. Except for money market accounts included as part of the donor restricted endowment funds, investments which have original maturity dates of three months or less are considered cash equivalents for the purposes of the statements of cash flows.

Investments

Investments consist of securities with original maturity dates greater than three months and money market accounts included as part of the donor-restricted endowment funds. All investments are presented in the financial statements at fair market value based on quoted prices. The changes in the fair value are reflected in current revenue. Interest and realized gains and losses are recorded as revenue when earned.

Property and Equipment

Furniture and equipment are recorded at cost. Major additions, replacements, and betterments with costs of at least \$1,000 and lives greater than one year are capitalized; maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expenses as incurred. Depreciation is provided on the straight-line basis over the useful lives of the assets, which range from three to ten years.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets under ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC 360-10 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment wherever events or changes in circumstances indicate that 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 exceed the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Net Assets

The financial statements of the Organization have been prepared on the accrual basis of accounting. Net assets, revenues and expenses are classified on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported as unrestricted support and expense.

Permanently restricted

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Contributions

Contributions are recognized in accordance with FASB ASC 605, *Accounting for Contributions Received and Contributions Made*.

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a departmental basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income which is not related to exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes. The Organization did not have any net unrelated business income for the years ended December 31, 2009 and 2008.

Recent Accounting Pronouncements

In June 2009, the FASB issued the *Accounting Standards Codification (ASC)*. The ASC replaced the *Hierarchy of Generally Accepted Accounting Principles*, and establishes the ASC as the single source of authoritative US GAAP for interim and annual periods ending after September 15, 2009. The ASC supersedes all existing non-SEC standards. There was no impact on the financial statements as a result of the adoption of the ASC.

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855, *Subsequent Events* is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855, *Subsequent Events* is effective for the financial periods ending after June 15, 2009. The adoption of ASC 855, *Subsequent Events* did not have a material impact on the Organization's financial statements.

In June 2006, the FASB issued ASC 740 to create a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. This interpretation also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. This interpretation was effective for fiscal years beginning after December 15, 2006, but the effective date was deferred to fiscal years beginning after December 15, 2008 for certain nonpublic enterprises by FASB Staff Position, for the "effective date of FASB Interpretation for accounting for uncertainty in income taxes for Certain Nonpublic Enterprises." There is no significant impact on the financial position and results of operations as a result of the Organization's adoption of this interpretation in the current year.

Reclassifications

Certain amounts for the prior year have been reclassified to conform to the current year's presentation.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 2 – INVESTMENTS

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

Certificates of Deposit: Valued using identical assets or liabilities in less active markets, such as dealer or broker markets, or survey of the dealer community by obtaining broker/dealer.

Mutual funds and money market accounts are listed on a national market or exchange and are valued at the last sales price, or if there is no sale and the market is still considered active, at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Equity securities, comprised of corporate stock listed on a national market or exchange, are valued at the last sales price on the last day of the fiscal year or if there is no sale and the market is still considered active, either (a) at the mean of the last bid and asked prices on such exchange, or (b) at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Debt securities consisting of corporate bonds and notes and government agency debt obligations, are generally valued at the most recent price of the equivalent quoted price for such securities. Debt securities are classified within Level 1 of the valuation hierarchy.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 2 – INVESTMENTS (CONTINUED)

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of December 31:

	2009			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	\$ 9,317	\$ -	\$ -	\$ 9,317
Fixed income securities	266,419	-	-	266,419
Mutual funds	2,686,314	-	-	2,686,314
Brokered certificates of deposit	1,263,594	-	-	1,263,594
Money markets	-	-	-	-
Total	<u>\$ 4,225,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,225,644</u>

	2008			
	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities	\$ 6,531	\$ -	\$ -	\$ 6,531
Fixed income securities	291,780	-	-	291,780
Mutual funds	2,264,787	-	-	2,264,787
Brokered certificates of deposit	1,243,843	-	-	1,243,843
Money markets	564,605	-	-	564,605
Total	<u>\$ 4,371,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,371,546</u>

The following schedule summarizes the investment return for the years ended December 31, 2009 and 2008:

	2009	2008
Interest and dividends	\$ 86,062	\$ 159,435
Unrealized (loss) on investments	(21,519)	(936,983)
Realized gain (loss) on investments	<u>457,488</u>	<u>(9,624)</u>
Total	<u>\$ 522,031</u>	<u>\$ (787,172)</u>

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3 – FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements as of December 31, 2009 and 2008, consists of:

	<u>2009</u>	<u>2008</u>
Office furniture and equipment	\$ 240,934	\$ 232,307
Leasehold improvements	<u>30,388</u>	<u>30,388</u>
	271,322	262,695
Less accumulated depreciation and amortization	<u>(230,649)</u>	<u>(212,863)</u>
Total	<u>\$ 40,673</u>	<u>\$ 49,832</u>

Depreciation and amortization of office furniture, equipment, and leasehold improvements was \$15,342 and \$12,018 for the years ended December 31, 2009 and 2008, respectively.

NOTE 4 – BOARD DESIGNATED NET ASSETS

Board designated, unrestricted net assets are available for special projects of particular merit in accordance with a majority vote of the Organization's Trustees. Board designated balances totaled \$723,019 at December 31, 2009 and 2008.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31:

	<u>2009</u>	<u>2008</u>
Future occupancy needs	\$ 500,000	\$ 500,000
International Division – Public Education	959,075	1,491,540
Accumulated donor-restricted endowment fund earnings not appropriated for spending	<u>354,683</u>	<u>2,695</u>
Total temporarily restricted net assets	<u>\$ 1,813,758</u>	<u>\$ 1,994,235</u>

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are subject to donor-imposed restrictions requiring that the principal be invested in perpetuity. Income on these funds is unrestricted for use within the Organization.

NOTE 7 – ENDOWMENTS

The Organization's endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees (Board) to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 7 – ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The Trustees of the Organization interpret the law to be the law governing such matters in the District of Columbia, and more, specifically: *Charitable and Curative Institutions, Subtitle III. Management of Institutional Funds, Chapter 16a. Uniform Prudent Management of Institutional Funds*. Pursuant to this, the Board has determined that the capital of donor-restricted endowment funds should be preserved and regarded as restricted, but that the income from such funds should be used to carry out the Organization’s charitable work.

Investment Policy

The Organization’s policy is for all investments to be held in the form of conservative mainstream investments such as large mutual funds, major high-rated bonds, large conservative money market funds, bank CDs, and similar investments. The objective is to safeguard the principle while providing a reasonable investment income for the Organization. All of the investments of the Organization are reviewed at least three times a year by its Board.

Spending Policy

The Organization has no formally established policy for the appropriation of endowment assets for expenditure. However, it has been the practice of the Organization, under direction of the Board, that interest and dividends on the funds are appropriated for spending when transferred or deposited into operating accounts. If the market value of these funds declines to a level below the original historical dollar amount of the endowment, funds will be transferred from the unrestricted net assets to supplement the restricted endowment.

The Organization’s endowment net asset composition by type of fund as of December 31, 2009 is presented below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 354,683	\$ 2,537,852	\$ 2,892,535

Changes in the endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance December 31, 2008	\$ -	\$ 2,695	\$ 2,537,852	\$ 2,540,547
Investment return:				
Interest and dividends	-	51,478	-	51,478
Net depreciation (realized and unrealized)	-	323,043	-	323,043
Total investment return	-	374,521	-	374,521
Appropriation of endowment assets for expenditure	-	(22,533)	-	(22,533)
Balance December 31, 2009	<u>\$ -</u>	<u>\$ 354,683</u>	<u>\$ 2,537,852</u>	<u>\$ 2,892,535</u>

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 7 – ENDOWMENTS (CONTINUED)

The Organization's endowment net asset composition by type of fund as of December 31, 2008 is presented below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,695	\$ 2,537,852	\$ 2,540,547

Changes in the endowment net assets for the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance December 31, 2007	\$ 725,816	\$ -	\$ 2,537,852	\$ 3,263,668
Net asset reclassification based on change in law	<u>(725,816)</u>	<u>725,816</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	-	725,816	2,537,852	3,263,668
Investment return:				
Interest and dividends	-	87,098	-	87,098
Net appreciation (realized and unrealized)	<u>-</u>	<u>(737,014)</u>	<u>-</u>	<u>(737,014)</u>
Total investment return	-	(649,916)	-	(649,916)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(73,205)</u>	<u>-</u>	<u>(73,205)</u>
Balance December 31, 2008	<u>\$ -</u>	<u>\$ 2,695</u>	<u>\$ 2,537,852</u>	<u>\$ 2,540,547</u>

NOTE 8 – LEASE COMMITMENT

The Organization currently leases two office spaces in Washington, D.C. under non-cancelable operating leases. Minimum future lease commitments under non-cancelable operating leases are as follows:

2010	\$ 36,444
2011	7,800
2012	<u>3,900</u>
Total	<u>\$ 48,144</u>

Total lease expense under all operating leases was \$93,880 and \$106,785 for the years ended December 31, 2009 and 2008, respectively.

**ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 9 – RETIREMENT PLAN

The Organization sponsors a defined contribution pension plan that covers all the employees. Employees are eligible to participate in the plan after six months of service. For the years ended December 31, 2009 and 2008, the Organization contributed an amount equal to four percent of each participant's gross salary. Total contributions were \$37,364 and \$33,841 for the years ended December 31, 2009 and 2008, respectively.

NOTE 10 – CONCENTRATIONS OF RISK

Cash and Investments

At December 31, 2009 and 2008, and at various times during the year, the Organization maintained cash-in-bank balances in excess of the federally insured limit of \$250,000. At December 31, 2009 and 2008, the Organization had cash balances in the amount of \$3,060,097 and \$2,214,927, respectively.

Revenue

During 2009 and 2008, the Organization received approximately 78% and 63%, respectively, of total contributions and grants from two contributors.

NOTE 11 – INCOME TAXES

The Organization adopted the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*, on January 1, 2009. Management has determined that the Organization has no material uncertain tax positions that would require recognition under ASC 740.

NOTE 12 – SUBSEQUENT EVENTS

Management evaluated subsequent events through July 7, 2010, the date the combined financial statements were available to be issued. Events or transactions occurring after December 31, 2009, but prior to July 7, 2010 that provided additional evidence about conditions that existed at December 31, 2009, have been recognized in the combined financial statements for the year ended December 31, 2009. Events or transactions that provided evidence about conditions that did not exist at December 31, 2009, but arose before the combined financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2009.

SUPPLEMENTAL INFORMATION

**ACTION ON SMOKING AND HEALTH
COMBINING STATEMENT OF ACTIVITIES
Year Ended December 31, 2009**

	ASH Trust				ASH International				Elimination	Combined			
	Temporarily		Permanently	ASH Trust	Temporarily		Permanently	ASH Int'l		Temporarily		Permanently	Combined
	Unrestricted	Restricted	Restricted	Total	Unrestricted	Restricted	Restricted	Total		Unrestricted	Restricted	Restricted	Total
REVENUES, GAINS, AND													
PUBLIC SUPPORT													
Contributions and grants	\$ 621,958	\$ -	\$ -	\$ 621,958	\$ 2,839,702	\$ 272,972	\$ -	\$ 3,112,674	\$ (270,000)	\$ 3,191,660	\$ 272,972	\$ -	\$ 3,464,632
Investment income	147,510	374,521	-	522,031	-	-	-	-	-	147,510	374,521	-	522,031
Net assets released from restrictions	22,533	(22,533)	-	-	805,437	(805,437)	-	-	-	827,970	(827,970)	-	-
Total revenues, gains, and public support	<u>792,001</u>	<u>351,988</u>	<u>-</u>	<u>1,143,989</u>	<u>3,645,139</u>	<u>(532,465)</u>	<u>-</u>	<u>3,112,674</u>	<u>(270,000)</u>	<u>4,167,140</u>	<u>(180,477)</u>	<u>-</u>	<u>3,986,663</u>
EXPENSES													
Program services:													
Public education	576,440	-	-	576,440	2,564,126	-	-	2,564,126	(229,500)	2,911,066	-	-	2,911,066
Legal action	379,663	-	-	379,663	-	-	-	-	-	379,663	-	-	379,663
Total program services	956,103	-	-	956,103	2,564,126	-	-	2,564,126	(229,500)	3,290,729	-	-	3,290,729
Management and general	94,079	-	-	94,079	301,662	-	-	301,662	(27,000)	368,741	-	-	368,741
Fundraising	58,291	-	-	58,291	150,831	-	-	150,831	(13,500)	195,622	-	-	195,622
Total expenses	<u>1,108,473</u>	<u>-</u>	<u>-</u>	<u>1,108,473</u>	<u>3,016,619</u>	<u>-</u>	<u>-</u>	<u>3,016,619</u>	<u>(270,000)</u>	<u>3,855,092</u>	<u>-</u>	<u>-</u>	<u>3,855,092</u>
CHANGE IN NET ASSETS	<u>(316,472)</u>	<u>351,988</u>	<u>-</u>	<u>35,516</u>	<u>628,520</u>	<u>(532,465)</u>	<u>-</u>	<u>96,055</u>	<u>-</u>	<u>312,048</u>	<u>(180,477)</u>	<u>-</u>	<u>131,571</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>2,643,531</u>	<u>502,695</u>	<u>2,537,852</u>	<u>5,684,078</u>	<u>(4,487)</u>	<u>1,491,540</u>	<u>-</u>	<u>1,487,053</u>	<u>-</u>	<u>2,639,044</u>	<u>1,994,235</u>	<u>2,537,852</u>	<u>7,171,131</u>
NET ASSETS, END OF YEAR	<u>\$ 2,327,059</u>	<u>\$ 854,683</u>	<u>\$ 2,537,852</u>	<u>\$ 5,719,594</u>	<u>\$ 624,033</u>	<u>\$ 959,075</u>	<u>\$ -</u>	<u>\$ 1,583,108</u>	<u>\$ -</u>	<u>\$ 2,951,092</u>	<u>\$ 1,813,758</u>	<u>\$ 2,537,852</u>	<u>\$ 7,302,702</u>