# 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**

| | 2009 | 2008 |
|---|---|---|
| **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 | 40,673 | 49,832 |
| **TOTAL ASSETS** | $ 7,586,439 | $ 7,642,205 |
| **LIABILITIES** | | |
| Accounts payable | $ 78,669 | $ 267,677 |
| Accrued expenses and other liabilities | 205,068 | 203,397 |
| Total liabilities | 283,737 | 471,074 |
| **NET ASSETS** | | |
| Unrestricted: | | |
| Undesignated | 2,228,073 | 1,916,025 |
| Board-designated | 723,019 | 723,019 |
| Total unrestricted net assets | 2,951,092 | 2,639,044 |
| Temporarily restricted | 1,813,758 | 1,994,235 |
| Permanently restricted | 2,537,852 | 2,537,852 |
| Total net assets | 7,302,702 | 7,171,131 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 7,586,439 | $ 7,642,205 |

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 | 827,970 | (827,970) | - | - | 640,473 | (640,473) | - | - |
| Total revenues, gains and public support | 4,167,140 | (180,477) | - | 3,986,663 | 4,883,784 | 166,896 | - | 5,050,680 |
| **EXPENSES** | | | | | | | | |
| Program services: | | | | | | | | |
| Public education | 2,911,064 | - | - | 2,911,064 | 2,788,260 | - | - | 2,788,260 |
| Legal action | 379,663 | - | - | 379,663 | 408,707 | - | - | 408,707 |
| 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 | 195,623 | - | - | 195,623 | 196,150 | - | - | 196,150 |
| Total expenses | 3,855,092 | - | - | 3,855,092 | 3,740,513 | - | - | 3,740,513 |
| **CHANGE IN NET ASSETS** | 312,048 | (180,477) | - | 131,571 | 1,143,271 | 166,896 | - | 1,310,167 |
| **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 | - | - | - | - | (725,816) | 725,816 | - | - |
| **NET ASSETS, BEGINNING OF YEAR AND RESTATEMENT** | 2,639,044 | 1,994,235 | 2,537,852 | 7,171,131 | 1,495,773 | 1,827,339 | 2,537,852 | 5,860,964 |
| **NET ASSETS, END OF YEAR** | $ 2,951,092 | $ 1,813,758 | $ 2,537,852 | $ 7,302,702 | $ 2,639,044 | $ 1,994,235 | $ 2,537,852 | $ 7,171,131 |

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**

| | Legal Action | Public Education | Total Program Services | Management and General | Fund-Raising | Total |
|---|---|---|---|---|---|---|
| **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** | $ 379,663 | $ 2,911,064 | $ 3,290,727 | $ 368,742 | $ 195,623 | $3,855,092 |
| **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**

| | Legal Action | Public Education | Total Program Services | Management and General | Fund-Raising | Total |
|---|---|---|---|---|---|---|
| **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** | $ 408,707 | $ 2,788,260 | $ 3,196,967 | $ 347,396 | $ 196,150 | $ 3,740,513 |
| **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 | (187,337) | 87,460 |
| Net cash provided by operating activities | 474,963 | 1,166,205 |
| **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 | 1,255,665 | 533,656 |
| Net cash provided by (used in) investing activities | 576,688 | (1,261,400) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 1,051,651 | (95,195) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 2,008,446 | 2,103,641 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 3,060,097 | $ 2,008,446 |

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

## 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.

**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.

**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.

## 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.

**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** | $ 4,225,644 | $ - | $ - | $ 4,225,644 |

| | 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** | $ 4,371,546 | $ - | $ - | $ 4,371,546 |

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 | 457,488 | (9,624) |
| **Total** | $ 522,031 | $ (787,172) |

## NOTE 3 – FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

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

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

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:

| | 2009 | 2008 |
|---|---|---|
| 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 | 354,683 | 2,695 |
| **Total temporarily restricted net assets** | $ 1,813,758 | $ 1,994,235 |

## 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.

**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:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| 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:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **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** | $ - | $ 354,683 | $ 2,537,852 | $ 2,892,535 |

**NOTE 7 – ENDOWMENTS** (CONTINUED)

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| 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:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Balance December 31, 2007** | $ 725,816 | $ - | $ 2,537,852 | $ 3,263,668 |
| Net asset reclassification based on change in law | (725,816) | 725,816 | - | - |
| 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) | - | (737,014) | - | (737,014) |
| Total investment return | - | (649,916) | - | (649,916) |
| Appropriation of endowment assets for expenditure | - | (73,205) | - | (73,205) |
| **Balance December 31, 2008** | $ - | $ 2,695 | $ 2,537,852 | $ 2,540,547 |

**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 | 3,900 |
| **Total** | $ 48,144 |

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

## 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 ACTIVITES
# Year Ended December 31, 2009

| | ASH Trust | | | | ASH International | | | | | Combined | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | ASH Trust Total | Unrestricted | Temporarily Restricted | Permanently Restricted | ASH Int'l Total | Elimination | Unrestricted | Temporarily Restricted | Permanently Restricted | Combined 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 | 792,001 | 351,988 | - | 1,143,989 | 3,645,139 | (532,465) | - | 3,112,674 | (270,000) | 4,167,140 | (180,477) | - | 3,986,663 |
| **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 | 1,108,473 | - | - | 1,108,473 | 3,016,619 | - | - | 3,016,619 | (270,000) | 3,855,092 | - | - | 3,855,092 |
| **CHANGE IN NET ASSETS** | (316,472) | 351,988 | - | 35,516 | 628,520 | (532,465) | - | 96,055 | - | 312,048 | (180,477) | - | 131,571 |
| **NET ASSETS (DEFICIT), BEGINNING OF YEAR** | 2,643,531 | 502,695 | 2,537,852 | 5,684,078 | (4,487) | 1,491,540 | - | 1,487,053 | - | 2,639,044 | 1,994,235 | 2,537,852 | 7,171,131 |
| **NET ASSETS, END OF YEAR** | $ 2,327,059 | $ 854,683 | $ 2,537,852 | $ 5,719,594 | $ 624,033 | $ 959,075 | $ - | $ 1,583,108 | $ - | $ 2,951,092 | $ 1,813,758 | $ 2,537,852 | $ 7,302,702 |