

ACTION ON SMOKING AND HEALTH

DECEMBER 31, 2012 AND 2011

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JOHN T SQUIRE CPA
SUSAN A LEMKIN CPA
CHRISTOPHER J MATHEWS CPA
BART J LANMAN CPA CFP®
CLINTON L LEHMAN CPA CMA CFM
ROBERT J KOPERA CPA
NANCY C JOHNSON CPA

SQUIRE, LEMKIN + COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS
111 ROCKVILLE PIKE
SUITE 475
ROCKVILLE MARYLAND 20850
301 424 6800 TELEPHONE
301 424 6892 FACSIMILE
EMAIL SUPPORT@MYCPAS.COM
WWW.MYCPAS.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Action on Smoking and Health
Washington, DC

We have audited the accompanying financial statements of Action on Smoking and Health which comprise of the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Action on Smoking and Health as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements as of December 31, 2011, were audited by other auditors whose report dated May 2, 2012, expressed an unqualified opinion on those statements.

Squire, Lemkin + Company LLP

June 12, 2013

ACTION ON SMOKING AND HEALTH
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 2,750,081	\$ 3,038,330
Grants and other receivables	321,633	219,022
Prepaid expenses and other assets	37,753	78,057
Investments	3,620,587	3,378,333
Property and equipment, net	15,462	22,890
TOTAL ASSETS	<u>\$ 6,745,516</u>	<u>\$ 6,736,632</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 178,358	\$ 111,991
Accrued expenses and other liabilities	168,074	155,074
Due to Framework Convention Alliance (Note 11)	92,470	180,129
TOTAL LIABILITIES	<u>\$ 438,902</u>	<u>\$ 447,194</u>
NET ASSETS:		
Unrestricted net assets:		
Operation balances	\$ 1,539,929	\$ 1,599,482
Funds functioning as endowment	724,894	691,612
Total unrestricted net assets	<u>\$ 2,264,823</u>	<u>\$ 2,291,094</u>
Temporarily restricted net assets:		
Donor contributions for programs	\$ 55,351	\$ 322,326
Donor contributions for facilities	500,000	500,000
Funds functioning as endowment	947,588	637,166
Total temporarily restricted net assets	<u>\$ 1,502,939</u>	<u>\$ 1,459,492</u>
Permanently restricted net assets:		
Endowments	\$ 2,538,852	\$ 2,538,852
TOTAL NET ASSETS	<u>\$ 6,306,614</u>	<u>\$ 6,289,438</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,745,516</u>	<u>\$ 6,736,632</u>

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

ACTION ON SMOKING AND HEALTH

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31,

	2012			2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:								
Grants	\$ 193,521	\$ 1,347,500	\$ -	\$ 1,541,021	\$ 133,000	\$ 1,773,000	\$ -	\$ 1,906,000
Contributions	400,549	-	-	400,549	308,196	-	-	308,196
Investment income, net	98,834	310,422	-	409,256	(17,412)	(29,552)	-	(46,964)
Miscellaneous income	130	-	-	130	31,275	-	-	31,275
Net assets released from restrictions	1,614,475	(1,614,475)	-	-	1,501,785	(1,501,785)	-	-
TOTAL REVENUE AND SUPPORT	\$ 2,307,509	\$ 43,447	\$ -	\$ 2,350,956	\$ 1,956,844	\$ 241,663	\$ -	\$ 2,198,507
EXPENSES:								
Program services:								
Public education	\$ 2,062,163	\$ -	\$ -	\$ 2,062,163	\$ 1,924,649	\$ -	\$ -	\$ 1,924,649
Supporting services:								
Management and general	\$ 102,830	\$ -	\$ -	\$ 102,830	\$ 330,468	\$ -	\$ -	\$ 330,468
Fundraising	168,787	-	-	168,787	141,731	-	-	141,731
Total supporting services	\$ 271,617	\$ -	\$ -	\$ 271,617	\$ 472,199	\$ -	\$ -	\$ 472,199
TOTAL EXPENSES	\$ 2,333,780	\$ -	\$ -	\$ 2,333,780	\$ 2,396,848	\$ -	\$ -	\$ 2,396,848
CHANGE IN NET ASSETS	\$ (26,271)	\$ 43,447	\$ -	\$ 17,176	\$ (440,004)	\$ 241,663	\$ -	\$ (198,341)
NET ASSETS, BEGINNING OF YEAR	2,291,094	1,459,492	2,538,852	6,289,438	2,731,098	1,217,829	2,538,852	6,487,779
NET ASSETS, END OF YEAR	\$ 2,264,823	\$ 1,502,939	\$ 2,538,852	\$ 6,306,614	\$ 2,291,094	\$ 1,459,492	\$ 2,538,852	\$ 6,289,438

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

ACTION ON SMOKING AND HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Public Education	Management and General	Fundraising	Total Expenses
Salaries	\$ 632,458	\$ 55,353	\$ 71,374	\$ 759,185
Employee benefits	92,618	9,036	11,295	112,949
Payroll taxes	43,093	4,205	5,255	52,553
Total payroll related expenses	\$ 768,169	\$ 68,594	\$ 87,924	\$ 924,687
Bank and investment fees	8,923	871	1,088	10,882
Tobacco-free campaigns	355,931	-	-	355,931
Communications	83,025	1,697	2,121	86,843
Conferences and meetings	34,850	-	-	34,850
Consultants	9,375	-	10,666	20,041
Depreciation and amortization	7,772	758	948	9,478
Dues and subscriptions	10,338	1,004	1,255	12,597
Grants	411,743	-	-	411,743
Insurance	12,117	1,182	1,478	14,777
Office expenses	52,468	5,117	6,400	63,985
Postage and shipping	10,548	1,030	6,108	17,686
Printing and publications	10,824	-	1,475	12,299
Professional services	88,284	8,613	10,766	107,663
Promotion and outreach	-	-	23,724	23,724
Repairs and maintenance	4,558	445	556	5,559
Rent and utilities	98,450	9,605	12,006	120,061
Supplies	4,689	457	572	5,718
Travel	90,099	3,457	1,700	95,256
TOTAL EXPENSES	\$ 2,062,163	\$ 102,830	\$ 168,787	\$ 2,333,780

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

ACTION ON SMOKING AND HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Public Education	Management and General	Fundraising	Total Expenses
Salaries	\$ 570,132	\$ 24,551	\$ 65,472	\$ 660,155
Employee benefits	95,059	3,204	8,545	106,808
Payroll taxes	52,878	1,782	4,753	59,413
Total payroll related expenses	\$ 718,069	\$ 29,537	\$ 78,770	\$ 826,376
Bank and investment fees	6,448	759	379	7,586
Communications	27,147	192,284	6,787	226,218
Conferences and meetings	159,594	-	-	159,594
Consultants	82,514	53,965	-	136,479
Depreciation and amortization	9,835	1,156	579	11,570
Dues and subscriptions	4,499	1,548	984	7,031
Grants	561,414	-	-	561,414
Insurance	13,908	773	773	15,454
Office expenses	64,556	7,595	3,797	75,948
Postage and shipping	9,669	1,677	1,547	12,893
Printing and publications	21,514	-	1,132	22,646
Professional services	54,377	18,693	11,895	84,965
Promotion and outreach	-	-	23,846	23,846
Repairs and maintenance	7,446	876	438	8,760
Rent and utilities	98,264	11,560	5,780	115,604
Supplies	12,521	1,472	737	14,730
Travel	72,874	8,573	4,287	85,734
TOTAL EXPENSES	<u>\$ 1,924,649</u>	<u>\$ 330,468</u>	<u>\$ 141,731</u>	<u>\$ 2,396,848</u>

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

ACTION ON SMOKING AND HEALTH

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 17,176	\$ (198,341)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,478	11,570
Net (appreciation) depreciation in fair value of investments	(294,705)	143,150
Donated stocks	-	(10,030)
Decrease (increase) in assets:		
Grants receivable	(102,611)	443,387
Prepaid expenses and other assets	40,304	(62,007)
Increase (decrease) in liabilities:		
Accounts payable	66,367	66,845
Due to Framework Convention Alliance	(87,659)	(247,874)
Accrued expenses and other liabilities	13,000	(37,906)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (338,650)	\$ 108,794
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	\$ (2,050)	\$ (2,353)
Purchases of investments and reinvested earnings	(56,299)	(89,484)
Sales and/or maturities on investments	108,750	461,891
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 50,401	\$ 370,054
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (288,249)	\$ 478,848
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,038,330	2,559,482
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,750,081	\$ 3,038,330

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

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

- Note 1. **Nature of Organization** - Action on Smoking and Health (ASH) envisions a world free of tobacco-related damage, disease and death. This is accomplished by taking action to educate the public and decision makers, track the tobacco industry, and work for sensible public policies at the local, national and global levels.

ASH works closely with its allies to ensure that the public health community addresses the tobacco epidemic in a unified and coherent manner. ASH is not anti-smoker - it is anti-tobacco. ASH is a leader in this movement and has been since its inception in 1967.

Public Education - ASH strives to raise public awareness on the risks associated with tobacco and engages in global campaigns for the prevention of tobacco-related damages. ASH is also actively involved in promoting public awareness on trade policies involving tobacco, on actions of the tobacco industry, and on poverty and human rights issues linked to tobacco use. ASH wants to make the public cognizant of their rights and their legal protections through the media, newsletters, and direct mail. ASH continues to develop new, effective ways to leverage their experience, expertise, and leadership of the tobacco-free movement to counter the power and influence of the global tobacco industry.

- Note 2. **Summary of Significant Accounting Policies**

Basis of Accounting - The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - Net assets, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ASH and changes therein, are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by either actions of ASH and/or the passage of time. Any temporarily restricted contribution that is received and used during the same year is considered an unrestricted net asset and is recorded as such. Accumulated earnings on permanently restricted endowment investments are also reported in temporarily restricted net assets.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by ASH.

Cash and Cash Equivalents - Cash and cash equivalents consist primarily of bank deposits and highly liquid investments. Investments which have original maturity dates of three months or less are considered cash equivalents for the purpose of the statements of cash flows.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 2. **Summary of Significant Accounting Policies (Continued)**

Accounts, Grants and Contributions Receivable - Accounts, grants and contributions receivable are stated at the amount management expects to collect from balances outstanding at year end. Annually, management determines if an allowance for doubtful accounts is necessary based upon review of outstanding receivables, historical collection of information and existing economic conditions. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. As of December 31, 2012, grants and contributions receivable of \$300,000 are expected to be collected within 1 year.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized and realized gains and losses are included in the statements of activities in the period in which such changes occur. Interest and dividends are recorded when earned. Donated investments are recorded at fair value on the date of donation.

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, while maintenance and repairs that do not improve or extend the lives of 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.

Value of Long-Lived Assets - ASH accounts for the valuation of long-lived assets under *FASB Accounting Standards Codification (ASC) 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets*. This requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that a change in the carrying amount of the asset to future undiscounted net cash flows is expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Revenue Recognition - Contributions, including unconditional promises to give, are recognized as revenue in the period in which they are received. Grants are recognized as revenue in the period in which such promises or agreements are made or when ASH invoices the grantor for expenditures incurred. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions received with donor restrictions are recorded as temporarily or permanently restricted revenue based on the donor's intent. Expirations of temporary restrictions are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Management believes all promises to give are fully collectible and no provision for doubtful promises to give is necessary.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 2. Summary of Significant Accounting Policies (Continued)

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

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.

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Note 3. Income Taxes - ASH is a 501(c)(3) organization that is exempt from Federal and District of Columbia income taxes under the provisions of the Internal Revenue Code Section 501(a), except for income unrelated to their exempt purpose. ASH has been classified as an organization that is not a private foundation and qualifies for charitable contribution deductions. ASH recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. ASH does not believe its financial statements include any uncertain tax positions. No provision for income taxes is reflected in the accompanying financial statements for the years ended December 31, 2012 and 2011.

ASH's income tax returns are subject to examination by the Internal Revenue Service (IRS) for a period of three years from the date they were filed, except under certain circumstances. The Form 990 tax returns for the years ending December 31, 2009 through 2011 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

Note 4. Property and Equipment - As of December 31, 2012 and 2011, property and equipment consisted of the following:

	2012	2011
Furniture and equipment	\$ 72,629	\$ 70,579
Leasehold improvements	6,030	6,030
Totals	\$ 78,659	\$ 76,609
Less, Accumulated depreciation	(63,197)	(53,719)
Property and equipment, net	\$ 15,462	\$ 22,890

For the years ended December 31, 2012 and 2011, depreciation and amortization expense totaled \$9,478 and \$11,570, respectively.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 5. **Investments and Fair Value Measurements** - ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs 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 priorities to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are based on unadjusted quoted prices for identical assets traded in active markets that ASH has the ability to access.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The 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.

Mutual Fund and Equity Securities - Comprised of corporate stock, and 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.

U.S. Government and Corporate Bonds - Consist of corporate bonds, notes and government agency debt obligations, and 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, 2012 AND 2011

Note 5. Investments and Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, ASH's investments at fair value as of December 31, 2012 and 2011:

Assets at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
U.S. Government bonds	\$ 226,976	\$ --	\$ --	\$ 226,976
Corporate bonds	6,684	--	--	6,684
Certificates of deposit	30,986	--	--	30,986
Mutual funds	3,268,524	--	--	3,268,524
Common stocks	87,417	--	--	87,417
Total assets at fair value	<u>\$ 3,620,587</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,620,587</u>

Assets at Fair Value as of December 31, 2011				
	Level 1	Level 2	Level 3	Total
U.S. Government bonds	\$ 225,183	\$ --	\$ --	\$ 225,183
Corporate bonds	6,169	--	--	6,169
Certificates of deposit	131,401	--	--	131,401
Mutual funds	2,953,849	--	--	2,953,849
Common stocks	61,731	--	--	61,731
Total assets at fair Value	<u>\$ 3,378,333</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,378,333</u>

The following schedule summarizes the investment return for the years ended December 31:

	2012	2011
Interest and dividends	\$ 114,551	\$ 96,186
Net appreciation (depreciation) in fair value	294,705	(143,150)
Totals	<u>\$ 409,256</u>	<u>\$ (46,964)</u>

Note 6. **Endowments** - ASH's endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees (the Board) to function as endowments. As required by accounting principles generally accepted in the United States of America, 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.

Interpretation of Relevant Law - The Board interprets 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 and that the income from such funds be used to carry out ASH's charitable work.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6. Endowments (Continued)

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

Spending Policy - ASH has no formally established policy for the appropriation of endowment assets for expenditure. However, it has been the practice of ASH, under direction of the Board, that the 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 endowments.

ASH's endowment net assets consist of the following as of December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ --	\$ 947,588	\$ 2,538,852	\$ 3,486,440
Board-designated endowment funds	<u>724,894</u>	<u>--</u>	<u>--</u>	<u>724,894</u>
Balance at December 31, 2012	<u>\$ 724,894</u>	<u>\$ 947,588</u>	<u>\$ 2,538,852</u>	<u>\$ 4,211,334</u>

Changes in the endowment net assets for the year ended December 31, 2012 are as follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2011	\$ 691,612	\$ 637,166	\$ 2,538,852	\$ 3,867,630
Investment gains, net	<u>33,282</u>	<u>310,422</u>	<u>--</u>	<u>343,704</u>
Balance at December 31, 2012	<u>\$ 724,894</u>	<u>\$ 947,588</u>	<u>\$ 2,538,852</u>	<u>\$ 4,211,334</u>

There were no contributions or appropriations for expenditures during the year ended December 31, 2012.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 6. Endowments (Continued)

ASH's endowment net assets consist of the following as of December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ --	\$ 637,166	\$ 2,538,852	\$ 3,176,018
Board-designated endowment funds	<u>691,612</u>	<u>--</u>	<u>--</u>	<u>691,612</u>
Balance at December 31, 2011	<u>\$ 691,612</u>	<u>\$ 637,166</u>	<u>\$ 2,538,852</u>	<u>\$ 3,867,630</u>

Changes in the endowment net assets for the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2010	\$ 739,574	\$ 666,718	\$ 2,538,852	\$ 3,945,144
Investment losses, net	(17,412)	(29,552)	--	(46,964)
Appropriation for expenditures	<u>(30,550)</u>	<u>--</u>	<u>--</u>	<u>(30,550)</u>
Balance at December 31, 2011	<u>\$ 691,612</u>	<u>\$ 637,166</u>	<u>\$ 2,538,852</u>	<u>\$ 3,867,630</u>

Note 7. Net Assets - Temporarily restricted net assets were available for the following purposes as of December 31:

	<u>2012</u>	<u>2011</u>
Public education	\$ 55,351	\$ 322,326
Future occupancy needs	500,000	500,000
Accumulated donor-restricted endowment fund earnings	<u>947,588</u>	<u>637,166</u>
Totals	<u>\$ 1,502,939</u>	<u>\$ 1,459,492</u>

Permanently restricted net assets are subject to donor-imposed restrictions requiring that the principle be invested in perpetuity. Income on these funds is unrestricted for use within ASH and reported in temporarily restricted net assets until released for expenditures.

Note 8. Lease Commitment - ASH currently leases two office spaces in Washington, D.C. under non-cancelable operating leases. Minimum future lease commitments under non-cancelable leases are \$66,236 for the year ended December 31, 2013.

Rent expense, including operating expenses, for the years ended December 31, 2012 and 2011 totaled \$120,061 and \$115,604 respectively.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 9. **Retirement Plan** - ASH 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, 2012 and 2011, ASH contributed an amount equal to four percent of each participant's gross salary. Contributions totaled \$25,793 and \$24,703 for the years ended December 31, 2012 and 2011, respectively.

Note 10. **Allocation of Joint Costs** - During the year, ASH published three editions of their newsletter, *Smoking and Health Review*. The newsletters included a fundraising appeal for donations to support tobacco control initiatives in addition to education information. For the years ended December 31, 2012 and 2011, the cost of publishing and distributing the newsletters included \$12,299 and \$22,646 of joint costs, respectively. The joint costs were allocated as follows:

	2012	2011
Public education	\$ 10,824	\$ 19,868
Fundraising	1,475	2,778
Totals	<u>\$ 12,299</u>	<u>\$ 22,646</u>

Note 11. **Related Party Transactions** - ASH's Executive Director, Chief Operating Officer, and other ASH staff are involved in the operations of the Framework Convention Alliance (the FCA), a consortium of over 350 non-government organizations from more than 100 countries working on the development, ratification and implementation of the international treaty, the World Health Organization's Framework Convention on Tobacco Control. ASH is a member of the FCA and supports the coalition with in-kind contributions as well as reimbursements for various expenses incurred in support of the FCA's global program of work, which align with ASH's mission. ASH's staff is not compensated by the FCA for their contributions. For the years ended December 31, 2012 and 2011, expenses paid by ASH on behalf of the FCA totaled \$210,214 and \$181,518, respectively.

Note 12. **Concentrations of Risk** - ASH has cash and cash equivalents deposited with various banks. All accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. From time to time, the cash balances may exceed the insured limits. However, management believes that the credit risk related to the uninsured cash is minimal.

Note 13. **Subsequent Events** - In preparing these financial statements, ASH has evaluated events and transactions for potential recognition or disclosure through June 12, 2013, the date the financial statements were available to be issued. There were no additional events or transactions that were discovered during the evaluation that required further disclosure.