

**ACTION ON SMOKING AND HEALTH
FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**



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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 the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Sygnus, Lencak + Co., LLP

April 21, 2014

ACTION ON SMOKING AND HEALTH
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
ASSETS	2013	2012
Cash and cash equivalents	\$ 2,145,999	\$ 2,750,081
Grants and other receivables	287,500	321,633
Prepaid expenses and other assets	13,905	37,753
Investments	4,905,468	3,620,587
Property and equipment, net	10,489	15,462
TOTAL ASSETS	\$ 7,363,361	\$ 6,745,516
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 29,915	\$ 178,358
Accrued expenses and other liabilities	165,261	168,074
Due to Framework Convention Alliance (Note 11)	46,851	92,470
TOTAL LIABILITIES	\$ 242,027	\$ 438,902
NET ASSETS:		
Unrestricted net assets:		
Operation balances	\$ 1,315,896	\$ 1,539,929
Funds functioning as endowment	499,184	724,894
Total unrestricted net assets	\$ 1,815,080	\$ 2,264,823
Temporarily restricted net assets:		
Donor contributions for programs	\$ 409,860	\$ 55,351
Donor contributions for facilities	500,000	500,000
Funds functioning as endowment	1,857,542	947,588
Total temporarily restricted net assets	\$ 2,767,402	\$ 1,502,939
Permanently restricted net assets:		
Endowments	\$ 2,538,852	\$ 2,538,852
TOTAL NET ASSETS	\$ 7,121,334	\$ 6,306,614
TOTAL LIABILITIES AND NET ASSETS	\$ 7,363,361	\$ 6,745,516

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, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:								
Grants	\$ 45,000	\$ 1,648,910	\$ -	\$ 1,693,910	\$ 193,521	\$ 1,347,500	\$ -	\$ 1,541,021
Contributions	533,272	-	-	533,272	400,549	-	-	400,549
Interest and dividends	32,798	177,616	-	210,414	59,891	54,660	-	114,551
Miscellaneous income	1,836	-	-	1,836	130	-	-	130
Net assets released from restrictions	1,055,050	(1,055,050)	-	-	1,614,475	(1,614,475)	-	-
TOTAL REVENUE AND SUPPORT	<u>\$ 1,667,956</u>	<u>\$ 771,476</u>	<u>\$ -</u>	<u>\$ 2,439,432</u>	<u>\$ 2,268,566</u>	<u>\$ (212,315)</u>	<u>\$ -</u>	<u>\$ 2,056,251</u>
EXPENSES:								
Program services:								
Public education	\$ 1,841,235	\$ -	\$ -	\$ 1,841,235	\$ 2,062,163	\$ -	\$ -	\$ 2,062,163
Supporting services:								
Management and general	\$ 162,348	\$ -	\$ -	\$ 162,348	\$ 102,830	\$ -	\$ -	\$ 102,830
Fundraising	127,463	-	-	127,463	168,787	-	-	168,787
Total supporting services	\$ 289,811	\$ -	\$ -	\$ 289,811	\$ 271,617	\$ -	\$ -	\$ 271,617
TOTAL EXPENSES	<u>\$ 2,131,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,131,046</u>	<u>\$ 2,333,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,333,780</u>
CHANGE IN NET ASSETS FROM OPERATIONS	\$ (463,090)	\$ 771,476	\$ -	\$ 308,386	\$ (65,214)	\$ (212,315)	\$ -	\$ (277,529)
NON-OPERATING REVENUE:								
Net appreciation in fair value of investments	13,347	492,987	-	506,334	38,943	255,762	-	294,705
CHANGE IN NET ASSETS	\$ (449,743)	\$ 1,264,463	\$ -	\$ 814,720	\$ (26,271)	\$ 43,447	\$ -	\$ 17,176
NET ASSETS, BEGINNING 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
NET ASSETS, END OF YEAR	<u>\$ 1,815,080</u>	<u>\$ 2,767,402</u>	<u>\$ 2,538,852</u>	<u>\$ 7,121,334</u>	<u>\$ 2,264,823</u>	<u>\$ 1,502,939</u>	<u>\$ 2,538,852</u>	<u>\$ 6,306,614</u>

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, 2013

	Public Education	Management and General	Fundraising	Total Expenses
Salaries	\$ 584,227	\$ 62,818	\$ 66,482	\$ 713,527
Employee benefits	90,192	9,900	9,900	109,992
Payroll taxes	45,747	5,021	5,021	55,789
Total payroll related expenses	<u>\$ 720,166</u>	<u>\$ 77,739</u>	<u>\$ 81,403</u>	<u>\$ 879,308</u>
Bank fees	-	11,144	-	11,144
Investment management fees	-	18,145	-	18,145
Tobacco-free campaigns	146,289	-	-	146,289
Communications	57,996	-	-	57,996
Conferences and meetings	83,951	3,333	-	87,284
Consultants	153,392	-	2,900	156,292
Depreciation and amortization	4,865	525	550	5,940
Dues and subscriptions	16,445	-	2,242	18,687
Grants	373,149	-	-	373,149
Insurance	20,237	2,185	2,287	24,709
Office expenses	48,953	5,284	5,534	59,771
Postage and shipping	13,053	1,409	1,476	15,938
Printing and publications	1,003	75	147	1,225
Professional services	58,599	29,223	-	87,822
Promotion and outreach	2,056	-	12,725	14,781
Registration fees	-	-	4,385	4,385
Repairs and maintenance	2,843	307	321	3,471
Rent and utilities	96,087	10,372	10,861	117,320
Supplies	5,063	547	572	6,182
Travel	37,088	2,060	2,060	41,208
TOTAL EXPENSES	<u><u>\$ 1,841,235</u></u>	<u><u>\$ 162,348</u></u>	<u><u>\$ 127,463</u></u>	<u><u>\$ 2,131,046</u></u>

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	<u>\$ 768,169</u>	<u>\$ 68,594</u>	<u>\$ 87,924</u>	<u>\$ 924,687</u>
Bank 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	-	-	17,504	17,504
Registration fees	-	-	6,220	6,220
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	<u><u>\$ 2,062,163</u></u>	<u><u>\$ 102,830</u></u>	<u><u>\$ 168,787</u></u>	<u><u>\$ 2,333,780</u></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,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 814,720	\$ 17,176
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,940	9,478
Net appreciation in fair value of investments	(506,334)	(294,705)
Decrease (increase) in assets:		
Grants receivable	34,133	(102,611)
Prepaid expenses and other assets	23,848	40,304
Increase (decrease) in liabilities:		
Accounts payable	(148,443)	66,367
Due to Framework Convention Alliance	(45,619)	(87,659)
Accrued expenses and other liabilities	(2,813)	13,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 175,432	\$ (338,650)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	\$ (967)	\$ (2,050)
Purchases of investments and reinvested earnings	(3,825,022)	(56,299)
Sales and/or maturities of investments	3,046,475	108,750
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	\$ (779,514)	\$ 50,401
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (604,082)	\$ (288,249)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	2,750,081	3,038,330
END OF YEAR	\$ 2,145,999	\$ 2,750,081

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

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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, 2013 AND 2012

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 information and existing economic conditions. Accounts deemed uncollectible are charged off based on specific circumstances of the parties involved. As of December 31, 2013, grants and contributions receivable of \$287,500 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, 2013 AND 2012

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.

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, 2013 and 2012.

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, 2010 through 2012 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, 2013 and 2012, property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 73,596	\$ 72,629
Leasehold improvements	<u>6,030</u>	<u>6,030</u>
Totals	\$ 79,626	\$ 78,659
Less, Accumulated depreciation	<u>(69,137)</u>	<u>(63,197)</u>
Property and equipment, net	<u>\$ 10,489</u>	<u>\$ 15,462</u>

For the years ended December 31, 2013 and 2012, depreciation and amortization expense totaled \$5,940 and \$9,478, respectively.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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.

The following tables set forth by level, within the fair value hierarchy, ASH's investments at fair value as of December 31, 2013 and 2012:

	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
U.S. Government bonds	\$ 391	\$ --	\$ --	\$ 391
Corporate bonds	22,001	--	--	22,001
Certificates of deposit	31,025	--	--	31,025
Mutual funds	4,162,807	--	--	4,162,807
Common stocks	689,244	--	--	689,244
Total assets at fair value	\$ 4,905,468	\$ --	\$ --	\$ 4,905,468

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Note 5. **Investments and Fair Value Measurements** (Continued)

	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	\$ 3,620,587	\$ --	\$ --	\$ 3,620,587

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

	2013	2012
Interest and dividends	\$ 210,414	\$ 114,551
Net appreciation in fair value	506,334	294,705
Totals	\$ 716,748	\$ 409,256

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.

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.

ACTION ON SMOKING AND HEALTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 6. **Endowments** (Continued)

ASH's endowment net assets consist of the following as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ --	\$ 1,857,542	\$ 2,538,852	\$ 4,396,394
Board-designated endowment funds	<u>499,184</u>	<u>--</u>	<u>--</u>	<u>499,184</u>
Balance at December 31, 2013	<u>\$ 499,184</u>	<u>\$ 1,857,542</u>	<u>\$ 2,538,852</u>	<u>\$ 4,895,578</u>

Changes in the endowment net assets for the year ended December 31, 2013 are as follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2012	\$ 724,894	\$ 947,588	\$ 2,538,852	\$ 4,211,334
Interest and dividends	16,591	177,616	--	194,207
Net appreciation	14,432	492,987	--	507,419
Spending withdrawals	(2,572)	(31,660)	--	(34,232)
Investment fees	(1,406)	(16,739)	--	(18,145)
Reclassification	<u>(252,755)</u>	<u>287,750</u>	<u>--</u>	<u>34,995</u>
Balance at December 31, 2013	<u>\$ 499,184</u>	<u>\$ 1,857,542</u>	<u>\$ 2,538,852</u>	<u>\$ 4,895,578</u>

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>

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

Note 6. **Endowments** (Continued)

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

	<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	33,282	310,422	--	343,704
Balance at				
December 31, 2012	\$ 724,894	\$ 947,588	\$ 2,538,852	\$ 4,211,334

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

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

	<u>2013</u>	<u>2012</u>
Public education	\$ 409,860	\$ 55,351
Future occupancy needs	500,000	500,000
Accumulated donor-restricted endowment fund earnings	1,857,542	947,588
Totals	\$ 2,767,402	\$ 1,502,939

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. On August 19, 2013, ASH extended both of their leases through August 31, 2016 and September 30, 2016, respectively.

Future minimum lease payments for the years ending December 31:

2014	\$ 116,934
2015	120,462
2016	87,455
Totals	\$ 324,851

Rent expense, including operating expenses, for the years ended December 31, 2013 and 2012 totaled \$117,320 and \$120,061 respectively.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, ASH contributed an amount equal to four percent of each participant's gross salary. Contributions totaled \$26,529 and \$25,793 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, the cost of publishing and distributing the newsletters included \$5,119 and \$12,299 of joint costs, respectively. The joint costs were allocated as follows:

	2013	2012
Public education	\$ 4,504	\$ 10,824
Fundraising	615	1,475
Totals	<u>\$ 5,119</u>	<u>\$ 12,299</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, 2013 and 2012, expenses paid by ASH on behalf of the FCA totaled \$118,017 and \$210,214, 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 April 21, 2014, 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.