

ACTION ON SMOKING AND HEALTH
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2011 AND 2010

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the Action on Smoking and Health ("ASH"), as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Action on Smoking and Health'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Action on Smoking and Health internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Action on Smoking and Health as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Ribis Jones & Maresca, P.A.

May 2, 2012

**ACTION ON SMOKING AND HEALTH
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 3,085,500	\$ 2,559,482
Grants receivable	219,022	662,409
Prepaid expenses and other assets	78,057	16,050
Investments	3,331,163	3,883,860
Property and equipment, net	<u>22,890</u>	<u>32,107</u>
TOTAL ASSETS	<u><u>\$ 6,736,632</u></u>	<u><u>\$ 7,153,908</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 111,991	\$ 45,146
Due to Framework Convention Alliance (Note K)	180,129	428,003
Accrued expenses and other liabilities	<u>155,074</u>	<u>192,980</u>
Total liabilities	447,194	666,129
NET ASSETS		
Unrestricted net assets:		
Operational balances	1,599,482	1,991,524
Funds functioning as endowment	<u>691,612</u>	<u>739,574</u>
Total unrestricted net assets	2,291,094	2,731,098
Temporarily restricted:		
Donor contributions for programs	322,326	51,111
Donor contributions for facilities	500,000	500,000
Funds functioning as endowment	<u>637,166</u>	<u>666,718</u>
Total temporarily restricted net assets	1,459,492	1,217,829
Permanently restricted:		
Endowments	<u>2,538,852</u>	<u>2,538,852</u>
Total net assets	<u><u>6,289,438</u></u>	<u><u>6,487,779</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,736,632</u></u>	<u><u>\$ 7,153,908</u></u>

See independent auditors' report and accompanying notes to the financial statements

**ACTION ON SMOKING AND HEALTH
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Grants	\$ 133,000	\$ 1,773,000	\$ -	\$ 1,906,000
Contributions	308,196	-	-	308,196
Investment losses, net	(17,412)	(29,552)	-	(46,964)
Miscellaneous income	31,275	-	-	31,275
Net assets released from restrictions	1,501,785	(1,501,785)	-	-
Total revenue and support	1,956,844	241,663	-	2,198,507
EXPENSES				
Program services:				
Legal action	542,627	-	-	542,627
Public education	1,382,022	-	-	1,382,022
Total program services	1,924,649	-	-	1,924,649
Supporting services:				
Management and general	330,468	-	-	330,468
Fundraising	141,731	-	-	141,731
Total supporting services	472,199	-	-	472,199
Total expenses	2,396,848	-	-	2,396,848
CHANGE IN NET ASSETS	(440,004)	241,663	-	(198,341)
NET ASSETS, beginning of year	2,731,098	1,217,829	2,538,852	6,487,779
NET ASSETS, end of year	\$ 2,291,094	\$ 1,459,492	\$ 2,538,852	\$ 6,289,438

**ACTION ON SMOKING AND HEALTH
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Grants	\$ 260,000	\$ 2,011,059	\$ -	\$ 2,271,059
Contributions	384,221	-	1,000	385,221
Investment income, net	108,355	324,966	-	433,321
Loss on disposal of assets	(6,646)	-	-	(6,646)
Miscellaneous income	6,000	-	-	6,000
Net assets released from restrictions	2,931,954	(2,931,954)	-	-
Total revenue and support	3,683,884	(595,929)	1,000	3,088,955
EXPENSES				
Program services:				
Legal action	693,615	-	-	693,615
Public education	2,657,051	-	-	2,657,051
Total program services	3,350,666	-	-	3,350,666
Supporting services:				
Management and general	366,806	-	-	366,806
Fundraising	186,406	-	-	186,406
Total supporting services	553,212	-	-	553,212
Total expenses	3,903,878	-	-	3,903,878
CHANGE IN NET ASSETS	(219,994)	(595,929)	1,000	(814,923)
NET ASSETS, beginning of year	2,951,092	1,813,758	2,537,852	7,302,702
NET ASSETS, end of year	<u>\$ 2,731,098</u>	<u>\$ 1,217,829</u>	<u>\$ 2,538,852</u>	<u>\$ 6,487,779</u>

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

	PROGRAM SERVICES			SUPPORTING SERVICES		
	Legal Action	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Services
						Total Expenses
Salaries	\$ 302,806	\$ 425,565	\$ 728,371	\$ 24,551	\$ 65,472	\$ 90,023
Employee benefits	39,519	55,540	95,059	3,204	8,545	11,749
Payroll taxes	21,983	30,895	52,878	1,782	4,753	6,535
Total payroll related expenses	364,308	512,000	876,308	29,537	78,770	108,307
Bank fees	3,034	3,414	6,448	759	379	1,138
Communications	6,787	20,360	27,147	192,284	6,787	199,071
Conferences and meetings	-	159,594	159,594	-	-	-
Consultants	37,776	447,913	485,689	53,965	-	53,965
Depreciation and amortization	4,628	5,207	9,835	1,156	579	1,735
Dues and subscriptions	3,937	562	4,499	1,548	984	2,532
Insurance	9,272	4,636	13,908	773	773	1,546
Office expenses	30,379	34,177	64,556	7,595	3,797	11,392
Postage and shipping	4,770	4,899	9,669	1,677	1,547	3,224
Printing and publications	-	21,514	21,514	-	1,132	1,132
Professional services	21,241	33,136	54,377	18,693	11,895	30,588
Promotion and outreach	-	-	-	-	23,846	23,846
Repairs and maintenance	3,504	3,942	7,446	876	438	1,314
Rent and utilities	46,242	52,022	98,264	11,560	5,780	17,340
Supplies	5,892	6,629	12,521	1,472	737	2,209
Travel	857	72,017	72,874	8,573	4,287	12,860
Total	\$ 542,627	\$ 1,382,022	\$ 1,924,649	\$ 330,468	\$ 141,731	\$ 472,199
						\$ 2,396,848

See independent auditors' report and accompanying notes to the financial statements

**ACTION ON SMOKING AND HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	PROGRAM SERVICES			SUPPORTING SERVICES		
	Legal Action	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Services
Salaries	\$ 393,287	\$ 552,727	\$ 946,014	\$ 31,888	\$ 85,035	\$ 116,923
Employee benefits	52,860	74,290	127,150	4,286	11,429	15,715
Payroll taxes	26,282	36,937	63,219	2,131	5,683	7,814
Total payroll related expenses	472,429	663,954	1,136,383	38,305	102,147	140,452
Bank fees	3,579	4,026	7,605	895	447	1,342
Communications	4,662	13,987	18,649	132,105	4,662	136,767
Conferences and meetings	-	610,447	610,447	-	-	-
Consultants	43,202	512,256	555,458	61,718	-	61,718
Depreciation and amortization	4,585	5,158	9,743	1,147	573	1,720
Dues and subscriptions	10,977	1,568	12,545	4,312	2,744	7,056
Insurance	20,563	10,281	30,844	1,713	1,714	3,427
Office expenses	15,771	17,742	33,513	3,943	1,971	5,914
Postage and shipping	5,659	5,812	11,471	1,989	1,835	3,824
Printing and publications	-	97,265	97,265	-	5,119	5,119
Professional services	40,455	63,109	103,564	35,599	22,655	58,254
Repairs and maintenance	7,828	8,806	16,634	1,957	978	2,935
Rent and utilities	47,007	52,883	99,890	11,751	5,876	17,627
Supplies	10,011	11,262	21,273	2,503	1,251	3,754
Travel	6,887	578,495	585,382	68,869	34,434	103,303
Total	\$ 693,615	\$ 2,657,051	\$ 3,350,666	\$ 366,806	\$ 186,406	\$ 553,212
						\$ 3,903,878

See independent auditors' report and accompanying notes to the financial statements

**ACTION ON SMOKING AND HEALTH
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (198,341)	\$ (814,923)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	11,570	11,463
Net appreciation in fair value of investments	143,150	(319,447)
Donated stocks	(10,030)	(10,696)
Loss on disposal of fixed assets	-	6,646
Decrease (increase) in assets:		
Grants receivable	443,387	(462,409)
Prepaid and other expenses	(62,007)	43,975
Increase (decrease) in liabilities:		
Accounts payable	66,845	(3,523)
Due to Framework Convention Alliance	(247,874)	398,003
Accrued expenses and other liabilities	(37,906)	(12,088)
Net Cash Provided by (Used) for Operating Activities	<u>108,794</u>	<u>(1,162,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,353)	(9,543)
Purchases of investments and reinvested earnings	(89,484)	(45,395)
Sales and/or maturities of investments	<u>609,517</u>	<u>717,322</u>
Net Cash Provided by Investing Activities	<u>517,680</u>	<u>662,384</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	626,474	(500,615)
CASH AND CASH EQUIVALENTS , beginning of year	<u>2,559,482</u>	<u>3,060,097</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 3,185,956</u></u>	<u><u>\$ 2,559,482</u></u>

SUPPLEMENTAL DISCLOSURE:

In 2010, ASH disposed of property and equipment with a cost basis of \$209,684 and accumulated depreciation of \$203,038.

**ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE A – NATURE OF ORGANIZATION

Action on Smoking and Health (“ASH”) is a nonprofit organization 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. ASH operates the following programs:

Legal action – ASH defends the rights of non-smokers and fights the problems that smoking creates.

Public education – ASH strives to raise public awareness on the dangers of smoking and second hand smoke. ASH also wants to make the public cognizant of their rights and the legal protections through the media, newsletters, and direct mail.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Basis of Presentation

Net assets, revenue, 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 resource that is received and used during the same year is considered an unrestricted resource and is reported as unrestricted support expense. 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.

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 purposes of the statements of cash flows.

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.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized and realized gains and losses are included in the statement 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 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 ranges from three to ten years.

Value of Long-Lived Assets

ASH 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 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.

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 C – 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, 2011 and 2010.

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, 2008 through 2010 are open for a tax examination by the IRS, although no request has been made as of the date of these financial statements.

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE D - PROPERTY AND EQUIPMENT

As of December 31, 2011 and 2010, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 37,028	\$ 38,974
Computer equipment	33,551	29,252
Leasehold improvements	<u>6,030</u>	<u>6,030</u>
	76,609	74,256
Less: accumulated depreciation	<u>(53,719)</u>	<u>(42,149)</u>
Property and equipment, net	<u>\$ 22,890</u>	<u>\$ 32,107</u>

For the years ended December 31, 2011 and 2010, depreciation and amortization expense totaled \$11,570 and \$11,463, respectively. During 2010, ASH disposed of property and equipment with a cost basis of \$209,684, which resulted in a loss on disposal of fixed assets totaling \$6,646.

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB *Accounting Standards Codification* (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 measurement) 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 model based 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.

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Mutual funds and equity securities, comprised of corporate stock, 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.

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.

The following tables sets forth by level, within the fair value hierarchy, ASH's investments at fair value as of December 31, 2011 and 2010:

Assets at Fair Value as of December 31, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S Government bonds	\$ 225,183	\$ -	\$ -	\$ 225,183
Corporate bonds	6,169	-	-	6,169
Certificates of deposit	131,401	-	-	131,401
Mutual funds	2,906,679	-	-	2,906,679
Common stocks	61,731	-	-	61,731
Total Assets at Fair Value	<u>\$ 3,331,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,331,163</u>

Assets at Fair Value as of December 31, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S Government bonds	\$ 190,803	\$ -	\$ -	\$ 190,803
Corporate bonds	45,872	-	-	45,872
Certificates of deposit	569,624	-	-	569,624
Mutual funds	2,992,664	-	-	2,992,664
Common stocks	84,897	-	-	84,897
Total Assets at Fair Value	<u>\$ 3,883,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,883,860</u>

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE E - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following schedule summarizes the investment return for the year ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 96,186	\$ 113,874
Net appreciation (depreciation) in fair value	<u>(143,150)</u>	<u>319,447</u>
Total	<u>\$ (46,964)</u>	<u>\$ 433,321</u>

NOTE F – ENDOWMENTS

ASH'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.

Interpretation of Relevant Law

The Trustees of ASH 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 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 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 ASH. All of the investments of ASH are reviewed at least three times a year by its 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 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 THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE F – 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 fund	<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>

ASH's endowment net assets consist of the following as of December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 666,718	\$ 2,538,852	\$ 3,205,570
Board-designated endowment fund	<u>739,574</u>	<u>-</u>	<u>-</u>	<u>739,574</u>
Balance at December 31, 2010	<u>\$ 739,574</u>	<u>\$ 666,718</u>	<u>\$ 2,538,852</u>	<u>\$ 3,945,144</u>

ACTION ON SMOKING AND HEALTH
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

NOTE F – ENDOWMENTS (continued)

Changes in the endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at December 31, 2009	\$ 723,019	\$ 354,683	\$ 2,537,852	\$ 3,615,554
Investment earnings, net	40,571	324,966	-	365,537
Contributions	-	-	1,000	1,000
Appropriation for expenditures	<u>(24,016)</u>	<u>(12,931)</u>	<u>-</u>	<u>(36,947)</u>
Balance at December 31, 2010	<u>\$ 739,574</u>	<u>\$ 666,718</u>	<u>\$ 2,538,852</u>	<u>\$ 3,945,144</u>

NOTE G - NET ASSETS

Temporarily restricted net assets were available for the following purpose as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Public education	\$ 322,326	\$ 51,111
Future occupancy needs	500,000	500,000
Accumulated donor-restricted endowment fund earnings	<u>637,166</u>	<u>666,718</u>
Total	<u>\$ 1,459,492</u>	<u>\$ 1,217,829</u>

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 ASH and reported in temporarily restricted net assets until released for expenditures.

NOTE H – 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 as follows:

2012	\$ 92,203
2013	<u>62,752</u>
Total	<u>\$ 154,955</u>

Rent expense for the years ended December 31, 2011 and 2010 totaled \$98,157 and \$93,600, respectively.

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NOTE I – 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, 2011 and 2010, ASH contributed an amount equal to four percent of each participant's gross salary. Contributions totaled \$24,703 and \$39,745 for the years ended December 31, 2011 and 2010, respectively.

NOTE J – ALLOCATION OF JOINT COSTS

During the year, ASH published three newsletters, *Smoking and Health Review*. The newsletters included a fundraising appeal for donations to support tobacco control initiatives in addition to educational information. For the years ended December 31, 2011 and 2010, the cost of publishing and distributing the newsletters included \$56,514 and \$22,646 of joint costs, respectively. The joint costs were allocated as follows:

	<u>2011</u>	<u>2010</u>
Public education	\$ 19,868	\$ 49,460
Fundraising	<u>2,778</u>	<u>6,954</u>
Total	<u>\$ 22,646</u>	<u>\$ 56,414</u>

NOTE K – RELATED PARTY TRANSACTIONS

ASH's Executive Director, Chief Operating Officer, and other ASH staff are involved in the operations of the Framework Convention Alliance (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, 2011 and 2010, payments to FCA totaled \$494,088 and \$502,452, respectively.

NOTE L – CONCENTRATIONS OF RISK

ASH has cash and cash equivalents deposited with various banks. Accounts at an institution are insured by the 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.

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NOTE M – SUBSEQUENT EVENTS

In preparing these financial statements, ASH has evaluated events and transactions for potential recognition or disclosure through May 2, 2012, 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.