

# Action on Smoking and Health Financial Statements December 31, 2019 and 2018



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Action on Smoking and Health  
Washington, DC

We have audited the accompanying financial statements of Action on Smoking and Health (a nonprofit organization) which comprise the statements of financial position as of December 31, 2019 and 2018, 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 evaluating the appropriateness of accounting policies used and the reasonableness of significant 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, 2019 and 2018, 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.

*Squire, Lenth & Co., LLP*

May 15, 2020

**ACTION ON SMOKING AND HEALTH**  
**STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31,	
	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 127,858	\$ 579,267
Grants and contributions receivable	41,915	48,000
Prepaid expenses	10,769	4,293
Investments	64,810	88,067
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 245,352</b>	<b>\$ 719,627</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OTHER ASSETS:</b>		
Security deposit	\$ 5,085	\$ 5,085
Restricted cash	152,190	603,149
Restricted investments	5,325,252	4,226,547
<b>TOTAL OTHER ASSETS</b>	<b>\$ 5,482,527</b>	<b>\$ 4,834,781</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,727,879</b>	<b>\$ 5,554,408</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 22,228	\$ 10,178
Accrued expenses and other liabilities	173,513	180,422
<b>TOTAL LIABILITIES</b>	<b>\$ 195,741</b>	<b>\$ 190,600</b>
<b>NET ASSETS:</b>		
Without donor restrictions:		
Undesignated	\$ 54,696	\$ 406,112
Board-designated	521,032	470,160
Total without donor restrictions	\$ 575,728	\$ 876,272
With donor restrictions	4,956,410	4,487,536
<b>TOTAL NET ASSETS</b>	<b>\$ 5,532,138</b>	<b>\$ 5,363,808</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,727,879</b>	<b>\$ 5,554,408</b>

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, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT:</b>						
Grants	\$ 127,995	\$ -	\$ 127,995	\$ 201,000	\$ 158,000	\$ 359,000
Contributions	355,743	-	355,743	399,348	50,000	449,348
Net assets released from restrictions	128,000	(128,000)	-	390,000	(390,000)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>\$ 611,738</b>	<b>\$ (128,000)</b>	<b>\$ 483,738</b>	<b>\$ 990,348</b>	<b>\$ (182,000)</b>	<b>\$ 808,348</b>
<b>EXPENSES:</b>						
Program services:						
Public education	\$ 873,147	\$ -	\$ 873,147	\$ 893,024	\$ -	\$ 893,024
Supporting services:						
Management and general	\$ 179,544	\$ -	\$ 179,544	\$ 189,094	\$ -	\$ 189,094
Fundraising	146,310	-	146,310	167,628	-	167,628
Total supporting services	\$ 325,854	\$ -	\$ 325,854	\$ 356,722	\$ -	\$ 356,722
<b>TOTAL EXPENSES</b>	<b>\$ 1,199,001</b>	<b>\$ -</b>	<b>\$ 1,199,001</b>	<b>\$ 1,249,746</b>	<b>\$ -</b>	<b>\$ 1,249,746</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ (587,263)</b>	<b>\$ (128,000)</b>	<b>\$ (715,263)</b>	<b>\$ (259,398)</b>	<b>\$ (182,000)</b>	<b>\$ (441,398)</b>
<b>NON-OPERATING REVENUE:</b>						
Interest and dividends, net of fees	18,780	103,500	122,280	22,346	170,808	193,154
Net appreciation (depreciation) in fair value of investments	55,707	705,606	761,313	(43,497)	(469,542)	(513,039)
Endowment releases	212,232	(212,232)	-	214,880	(214,880)	-
<b>CHANGE IN NET ASSETS BEFORE PROVISION FOR INCOME TAXES</b>	<b>\$ (300,544)</b>	<b>\$ 468,874</b>	<b>\$ 168,330</b>	<b>\$ (65,669)</b>	<b>\$ (695,614)</b>	<b>\$ (761,283)</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,680)</b>	<b>-</b>	<b>(1,680)</b>
<b>CHANGE IN NET ASSETS AFTER PROVISION FOR INCOME TAXES</b>	<b>\$ (300,544)</b>	<b>\$ 468,874</b>	<b>\$ 168,330</b>	<b>\$ (67,349)</b>	<b>\$ (695,614)</b>	<b>\$ (762,963)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>876,272</b>	<b>4,487,536</b>	<b>5,363,808</b>	<b>943,621</b>	<b>5,183,150</b>	<b>6,126,771</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 575,728</b>	<b>\$ 4,956,410</b>	<b>\$ 5,532,138</b>	<b>\$ 876,272</b>	<b>\$ 4,487,536</b>	<b>\$ 5,363,808</b>

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

**ACTION ON SMOKING AND HEALTH**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019				2018			
	Public Education	Management and General	Fundraising	Total Expenses	Public Education	Management and General	Fundraising	Total Expenses
Salaries	\$ 544,404	\$ 57,370	\$ 69,393	\$ 671,167	\$ 483,943	\$ 54,588	\$ 91,330	\$ 629,861
Employee benefits	86,641	9,130	11,044	106,815	88,052	9,932	16,617	114,601
Payroll taxes	43,211	4,554	5,508	53,273	37,250	4,201	7,030	48,481
Total payroll related expenses	\$ 674,256	\$ 71,054	\$ 85,945	\$ 831,255	\$ 609,245	\$ 68,721	\$ 114,977	\$ 792,943
Bank fees	-	13,606	-	13,606	-	12,946	-	12,946
Campaigns - Tobacco-free	-	-	-	-	16,290	-	-	16,290
Communications	9,669	-	-	9,669	16,053	-	-	16,053
Consultants	5,915	3,988	7,864	17,767	59,718	-	5,021	64,739
Dues and subscriptions	15,377	1,620	1,960	18,957	11,024	1,243	2,081	14,348
Grants	25,000	-	-	25,000	40,272	-	-	40,272
Insurance	8,450	890	1,077	10,417	8,717	983	1,645	11,345
Office expenses	18,023	1,899	2,297	22,219	12,704	1,433	2,398	16,535
Postage and shipping	1,847	195	235	2,277	2,373	268	448	3,089
Professional services	-	74,215	-	74,215	-	90,346	-	90,346
Promotion and outreach	-	-	27,034	27,034	-	-	13,828	13,828
Provision for income taxes	-	-	-	-	-	1,680	-	1,680
Registration fees	-	-	5,290	5,290	-	-	5,219	5,219
Repairs and maintenance	10,623	1,119	1,354	13,096	8,806	993	1,662	11,461
Rent and utilities	42,145	4,441	5,372	51,958	32,051	3,615	6,049	41,715
Supplies	6,263	660	798	7,721	5,934	669	1,120	7,723
Travel	55,579	5,857	7,084	68,520	69,837	7,877	13,180	90,894
<b>TOTAL EXPENSES</b>	<b>\$ 873,147</b>	<b>\$ 179,544</b>	<b>\$ 146,310</b>	<b>\$ 1,199,001</b>	<b>\$ 893,024</b>	<b>\$ 190,774</b>	<b>\$ 167,628</b>	<b>\$ 1,251,426</b>
<b>LESS OTHER EXPENSES INCLUDED ON THE STATEMENT OF ACTIVITIES</b>								
Provision for income taxes	-	-	-	-	-	(1,680)	-	(1,680)
<b>TOTAL EXPENSES BY FUNCTION</b>	<b>\$ 873,147</b>	<b>\$ 179,544</b>	<b>\$ 146,310</b>	<b>\$ 1,199,001</b>	<b>\$ 893,024</b>	<b>\$ 189,094</b>	<b>\$ 167,628</b>	<b>\$ 1,249,746</b>

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,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 168,330	\$ (762,963)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	(566)	(26,775)
Net (appreciation) depreciation in fair value of investments	(761,313)	513,039
(Increase) decrease in assets:		
Grants and contributions receivable	6,085	286,853
Due from ASH - International	-	9,399
Prepaid expenses	(6,476)	11,668
Increase (decrease) in liabilities:		
Accounts payable	12,050	(46,292)
Accrued expenses and other liabilities	(6,909)	9,412
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (588,799)</u>	<u>\$ (5,659)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales and/or maturities of investments	\$ 915,035	\$ 2,400,447
Purchases of investments and reinvested earnings	<u>(1,228,604)</u>	<u>(2,350,061)</u>
<b>NET CASH (USED IN) PROVIDED BY     INVESTING ACTIVITIES</b>	<u>\$ (313,569)</u>	<u>\$ 50,386</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	\$ (902,368)	\$ 44,727
<b>CASH AND CASH EQUIVALENTS:</b>		
<b>BEGINNING OF YEAR</b>	<u>1,182,416</u>	<u>1,137,689</u>
<b>END OF YEAR</b>	<u><u>\$ 280,048</u></u>	<u><u>\$ 1,182,416</u></u>

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



## ACTION ON SMOKING AND HEALTH

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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. Revenue and gains are recognized when earned, and expenses and losses are recognized when incurred.

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

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of ASH, management and the board of trustees. Board designated endowment funds are classified as net assets without donor restrictions.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of ASH, or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

## ACTION ON SMOKING AND HEALTH

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

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.

**Measure of Operations** - The accompanying statements of activities distinguish between operating and non-operating activities. Operating activities principally include all revenue and expenses that are an integral part of ASH's programs. Non-operating activities principally include investment earnings.

**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.

Restricted cash - Cash that is limited by donor-imposed restrictions and governing board designations for long-term purposes is classified separately from cash available for current use. Restrictions limiting the use of cash for long-term purposes include donor-restricted endowment funds, board-designated endowment funds, and donor-restricted cash for future occupancy needs.

The following table provides a reconciliation of cash and cash equivalents, and restricted cash within the statements of financial position that sum to the totals of cash and cash equivalents used in the statements of cash flows.

	2019	2018
Cash and cash equivalents	\$ 127,858	\$ 579,267
Restricted cash	152,190	603,149
Totals	<u>\$ 280,048</u>	<u>\$ 1,182,416</u>

**Grants and Contributions Receivable** - 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, 2019 and 2018, grants and contributions receivable are expected to be collected in less than one year. Therefore, no allowance for doubtful accounts has been established for the years ended December 31, 2019 and 2018.

## ACTION ON SMOKING AND HEALTH

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

**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 as net appreciation (depreciation) in fair value of investments in the period in which such changes occur. Interest and dividends, net of investment fees, are recorded as income when earned. Donated investments are recorded at fair value on the date of donation.

Restricted investments - Investments that are limited by donor-imposed restrictions and governing board designations for long-term purposes are classified separately from investments available for current use. Restrictions limiting the use of investments for long-term purposes include donor-restricted endowment funds, board-designated endowment funds, and investments related to donor-restricted contributions for future occupancy needs.

An analysis of investments held as of December 31, is as follows:

	2019	2018
Investments	\$ 64,810	\$ 88,067
Restricted Investments	<u>5,325,252</u>	<u>4,226,547</u>
Totals	<u>\$ 5,390,062</u>	<u>\$ 4,314,614</u>

**Property and Equipment** - Property 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 computed using the straight-line basis over the useful lives of the assets, which range from three to ten years. For the years ended December 31, 2019 and 2018, there was no depreciation expense, as all of ASH's assets were fully depreciated.

**Revenue Recognition** - ASH recognizes all unconditional grants and contributions in the period in which the commitment to give is made. Grants and contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Revenue recognized on grants and contributions that have been committed to ASH, but have not been received, are reflected as part of grants and contribution receivable in the accompanying statements of financial position. Conditional promises to give are not included as revenue and support until such time as the conditions are substantially met.

## ACTION ON SMOKING AND HEALTH

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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 functional basis in the statements of activities and statements of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services benefited and other costs are directly allocated to the specific activity benefited.

The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Payroll related expenses	Time and effort
Dues and subscriptions	Time and effort
Insurance	Time and effort
Office expenses	Time and effort
Postage and shipping	Time and effort
Repairs and maintenance	Time and effort
Rent and utilities	Time and effort
Supplies	Time and effort
Travel	Time and effort

**Significant Estimates** - 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Tax-exempt Status** - 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 is classified as an organization that is not a private foundation and qualifies for charitable contribution deductions. For the year ended December 31, 2018, ASH had unrelated business income tax expenses of \$1,680, as a result of a tax law change which taxed transportation benefits as unrelated business income. During the year ended December 31, 2019, the tax on transportation benefits as unrelated business income was repealed. As a result, there was no provision for income taxes required for the year ended December 31, 2019 since ASH had no taxable income from unrelated business activities.

**Accounting for Uncertain Tax Provisions** - ASH complies with the provisions of Financial Accounting Standards Board Codification topic Accounting for Uncertainty in Income Taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Management evaluated ASH's tax positions and concluded that ASH had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. For the years ended December 31, 2019 and 2018, no unrecognized tax provision or benefit exists in the accompanying financial statements.

**ACTION ON SMOKING AND HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

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

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 ended December 31, 2016 through 2018 are open for tax examination by the IRS, although no request has been made as of the date of these financial statements.

**Change in Accounting Principle** - In June 2018, FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

The change in accounting principle was adopted on a modified prospective basis in 2019. Adoption of the ASU had no effect on the financial statements as ASH's contributions were recognized the same way under old and new guidance.

**Note 3. Property and Equipment** - As of December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Furniture and equipment	\$ 1,343	\$ 1,343
Less, Accumulated depreciation	(1,343)	(1,343)
Property and equipment, net	<u>\$ --</u>	<u>\$ --</u>

**Note 4. Investments and Fair Value Measurements** - The accounting standards framework for measuring fair value provides a 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.

# ACTION ON SMOKING AND HEALTH

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### Note 4. Investments and Fair Value Measurements (Continued)

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:

*Corporate Bonds* - Consist of corporate bonds and notes, which 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.

*Certificates of Deposit* - Valued using identical assets or liabilities in less active markets, such as dealer or broker markets.

*Mutual Funds, Common Stocks, and Exchange Traded Funds* - Comprised of securities that 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.

The following tables summarize ASH's investments at fair value as of December 31, 2019 and 2018:

Assets at Fair Value as of December 31, 2019				
	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ 501,638	\$ --	\$ --	\$ 501,638
Corporate bonds	66,492	--	--	66,492
Exchange traded funds	1,366,026	--	--	1,366,026
Mutual funds	1,196,473	--	--	1,196,473
Common stocks	2,259,433	--	--	2,259,433
Total assets at fair value	<u>\$ 5,390,062</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,390,062</u>

Assets at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ 1,209,972	\$ --	\$ --	\$ 1,209,972
Mutual funds	2,186,279	--	--	2,186,279
Common stocks	918,363	--	--	918,363
Total assets at fair value	<u>\$ 4,314,614</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,314,614</u>

The following schedule summarizes the investment return including interest and dividends on savings accounts for the years ended December 31:

	2019	2018
Interest and dividends, net of fees	\$ 122,280	\$ 193,154
Net appreciation (depreciation) in fair value	761,313	(513,039)
Totals	<u>\$ 883,593</u>	<u>\$ (319,885)</u>

## ACTION ON SMOKING AND HEALTH

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 5. **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. ASH invests in corporate bonds, certificates of deposit, mutual funds, common stocks, and exchange traded funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported on the financial statements.

Note 6. **Endowments** - ASH's endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board follows the law governing endowments 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*. The Board has interpreted the law governing endowments in the District of Columbia, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, ASH classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with the law governing endowments in the District of Columbia, ASH considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources, and (7) ASH's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies** - ASH has adopted investment policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

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### Note 6. Endowments (Continued)

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, ASH expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**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. Appropriations from the endowment requires board approval.

**Funds With Deficiencies** - From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board has interpreted the law governing endowments in the District of Columbia to permit spending on underwater endowments in accordance with prudent measures required under law.

ASH's endowment net assets consist of the following as of December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 521,032	\$ --	\$ 521,032
Donor-restricted endowment funds:			
Original donor-restricted gift			
amount and amounts required to be			
maintained in perpetuity by donor	--	2,538,852	2,538,852
Accumulated investment gains	--	1,917,558	1,917,558
Totals	<u>\$ 521,032</u>	<u>\$ 4,456,410</u>	<u>\$ 4,977,442</u>

Changes in the endowment net assets for the year ended December 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at December 31, 2018	\$ 470,160	\$ 3,859,536	\$ 4,329,696
Contributions	566	--	566
Interest and dividends, net of fees	16,654	103,500	120,154
Net appreciation	50,500	705,606	756,106
Spending withdrawals	(16,848)	(212,232)	(229,080)
Balance at December 31, 2019	<u>\$ 521,032</u>	<u>\$ 4,456,410</u>	<u>\$ 4,977,442</u>



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**Note 6. Endowments (Continued)**

ASH's endowment net assets consist of the following as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 470,160	\$ --	\$ 470,160
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	--	2,538,852	2,538,852
Accumulated investment earnings	--	1,320,684	1,320,684
Totals	<u>\$ 470,160</u>	<u>\$ 3,859,536</u>	<u>\$ 4,329,696</u>

Changes in the endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2017	\$ 508,660	\$ 4,373,150	\$ 4,881,810
Interest and dividends, net of fees	19,327	170,808	190,135
Net depreciation	(41,122)	(469,542)	(510,664)
Spending withdrawals	(16,705)	(214,880)	(231,585)
Balance at December 31, 2018	<u>\$ 470,160</u>	<u>\$ 3,859,536</u>	<u>\$ 4,329,696</u>

**Note 7. Net Assets With Donor Restrictions** - Net assets with donor restrictions were composed of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Public education	\$ --	\$ 128,000
Future occupancy needs	500,000	500,000
Endowment	4,456,410	3,859,536
Totals	<u>\$ 4,956,410</u>	<u>\$ 4,487,536</u>

Accumulated donor-restricted endowment fund earnings are available for ASH's programs and reported in net assets with donor restrictions until released for expenditures in accordance with the endowment spending policy.

**Note 8. Lease Commitment** - In May 2018, ASH entered into a lease agreement for office space for 32 months, ending December 31, 2020. The lease requires monthly payments of \$4,635, with 3 months abatement. Future minimum lease payments for 2020 are \$50,985.

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Note 9. **Retirement Plan** - ASH sponsors a defined contribution pension plan that covers all their employees. Employees are eligible to participate in the plan after six months of service. ASH contributed an amount equal to four percent of each participant's gross salary, and contributions totaled \$26,846 and \$25,457 for the years ended December 31, 2019 and 2018, respectively.

Note 10. **Availability and Liquidity** - The following represents ASH's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 280,048	\$ 1,182,416
Grants and contributions receivable	41,915	48,000
Investments	<u>5,390,062</u>	<u>4,314,614</u>
Total financial assets	<u>\$ 5,712,025</u>	<u>\$ 5,545,030</u>
Amounts not available to be used within one year:		
Net assets with donor restrictions	\$ 4,956,410	\$ 4,487,536
Board-designated endowment	521,032	470,160
Less net assets with purpose restrictions to be met in less than a year	--	(128,000)
Less spending withdrawals from endowment to be appropriated in less than a year	<u>(240,000)</u>	<u>(240,000)</u>
Total amounts not available to be used within one year	<u>\$ 5,237,442</u>	<u>\$ 4,589,696</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 474,583</u>	<u>\$ 955,334</u>

ASH regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. ASH has various sources of liquidity at its disposal, including cash and cash equivalents, grants and contributions receivable, and investments.

For purposes of analyzing resources available to meet general expenditures over a one-year period, ASH considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next year, ASH operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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- Note 11. **Reclassifications** - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.
- Note 12. **Subsequent Events** - ASH evaluated its December 31, 2019 financial statements for subsequent events through May 15, 2020, which was the date the financial statements were available to be issued. As a result of the spread of the COVID19 coronavirus, economic uncertainties have arisen. Financial impact could occur though such potential impact is unknown at this time.