



FINANCIAL REPORT



ACTION ON SMOKING AND HEALTH

YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Action on Smoking and Health (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Action on Smoking and Health and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Action on Smoking and Health as of December 31, 2020 were audited by other auditors, whose report dated May 12, 2021 expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Action on Smoking and Health's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Action on Smoking and Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Action on Smoking and Health's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Thompson Greenspon

Fairfax, Virginia
October 11, 2022

ACTION ON SMOKING AND HEALTH

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 143,600 | \$ 62,663 |
| Accounts receivable | - | 100,664 |
| Grants and contributions receivable | 1,150,365 | 42,749 |
| Prepaid expenses | 17,233 | 12,503 |
| Investments | 81,468 | 64,334 |
| Total Current Assets | 1,392,666 | 282,913 |
| Property and Equipment, net | - | - |
| Other Assets | | |
| Security deposit | 5,085 | 5,085 |
| Restricted cash | 671,996 | 602,637 |
| Restricted investments | 4,581,439 | 4,875,223 |
| Total Other Assets | 5,258,520 | 5,482,945 |
| Total Assets | \$ 6,651,186 | \$ 5,765,858 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 29,033 | \$ 46,885 |
| Accrued expenses and other liabilities | 207,081 | 186,547 |
| Deferred revenue | 68,645 | 80,526 |
| Total Current Liabilities | 304,759 | 313,958 |
| Long-term Liabilities | | |
| Loan - Paycheck Protection Program | 124,380 | - |
| Total Liabilities | 429,139 | 313,958 |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 968,612 | (25,960) |
| Board-designated | 554,762 | 521,713 |
| Total Without Donor Restrictions | 1,523,374 | 495,753 |
| With donor restrictions | 4,698,673 | 4,956,147 |
| Total Net Assets | 6,222,047 | 5,451,900 |
| Total Liabilities and Net Assets | \$ 6,651,186 | \$ 5,765,858 |

The Notes to Financial Statements are an integral part of these statements.

ACTION ON SMOKING AND HEALTH

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | | | 2020 | | |
|---|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenue and Support | | | | | | |
| Grants | \$ 27,000 | \$ 125,450 | \$ 152,450 | \$ 56,000 | \$ 81,225 | \$ 137,225 |
| Contributions | 1,333,541 | - | 1,333,541 | 448,461 | - | 448,461 |
| Program service revenue | - | - | - | 100,664 | - | 100,664 |
| Net assets released from restrictions | 125,450 | (125,450) | - | 81,225 | (81,225) | - |
| Total Revenue and Support | <u>1,485,991</u> | <u>-</u> | <u>1,485,991</u> | <u>686,350</u> | <u>-</u> | <u>686,350</u> |
| Expenses | | | | | | |
| Program services | | | | | | |
| Public education | 855,150 | - | 855,150 | 833,046 | - | 833,046 |
| Supporting services | | | | | | |
| Management and general | 176,047 | - | 176,047 | 158,863 | - | 158,863 |
| Fundraising | 196,763 | - | 196,763 | 166,267 | - | 166,267 |
| Total Supporting Services | <u>372,810</u> | <u>-</u> | <u>372,810</u> | <u>325,130</u> | <u>-</u> | <u>325,130</u> |
| Total Expenses | <u>1,227,960</u> | <u>-</u> | <u>1,227,960</u> | <u>1,158,176</u> | <u>-</u> | <u>1,158,176</u> |
| Change in Net Assets from Operations | 258,031 | - | 258,031 | (471,826) | - | (471,826) |
| Non-Operating Income | | | | | | |
| Interest and dividends, net of fees | 27,421 | 83,069 | 110,490 | 31,415 | 94,713 | 126,128 |
| Net appreciation in fair value of investments | 22,480 | 379,146 | 401,626 | 688 | 264,772 | 265,460 |
| Endowment releases | 719,689 | (719,689) | - | 359,748 | (359,748) | - |
| Change in Net Assets | 1,027,621 | (257,474) | 770,147 | (79,975) | (263) | (80,238) |
| Net Assets, beginning of year | <u>495,753</u> | <u>4,956,147</u> | <u>5,451,900</u> | <u>575,728</u> | <u>4,956,410</u> | <u>5,532,138</u> |
| Net Assets, end of year | <u>\$ 1,523,374</u> | <u>\$ 4,698,673</u> | <u>\$ 6,222,047</u> | <u>\$ 495,753</u> | <u>\$ 4,956,147</u> | <u>\$ 5,451,900</u> |

The Notes to Financial Statements are an integral part of these statements.

ACTION ON SMOKING AND HEALTH

STATEMENTS OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | | | | 2020 | | | |
|--------------------------------|---------------------|---------------------------|-------------------|---------------------|---------------------|---------------------------|-------------------|---------------------|
| | Public Education | Management and General | Fundraising | Total | Public Education | Management and General | Fundraising | Total |
| Payroll-related expenses | | | | | | | | |
| Salaries | \$ 580,189 | \$ 60,024 | \$ 71,003 | \$ 711,216 | \$ 556,007 | \$ 57,403 | \$ 66,495 | \$ 679,905 |
| Employee benefits | 107,316 | 11,103 | 13,133 | 131,552 | 99,079 | 10,229 | 11,849 | 121,157 |
| Payroll taxes | 45,743 | 4,732 | 5,598 | 56,073 | 45,070 | 4,653 | 5,390 | 55,113 |
| Total payroll-related expenses | 733,248 | 75,859 | 89,734 | 898,841 | 700,156 | 72,285 | 83,734 | 856,175 |
| Bank fees | 15,266 | 1,579 | 1,868 | 18,713 | - | 12,873 | - | 12,873 |
| Communications | 8,693 | - | - | 8,693 | 12,349 | - | - | 12,349 |
| Consultants | 14,818 | 25,000 | 58,456 | 98,274 | 8,891 | - | 22,741 | 31,632 |
| Dues and subscriptions | 18,143 | 1,877 | 2,220 | 22,240 | 21,384 | 2,208 | 2,557 | 26,149 |
| Insurance | 13,676 | 1,415 | 1,674 | 16,765 | 13,809 | 1,426 | 1,651 | 16,886 |
| Office expenses | 10,519 | 1,088 | 1,288 | 12,895 | 6,781 | 700 | 811 | 8,292 |
| Postage and shipping | 697 | 72 | 86 | 855 | 1,409 | 145 | 169 | 1,723 |
| Professional services | 3,214 | 65,342 | 393 | 68,949 | 6,371 | 62,836 | 762 | 69,969 |
| Promotion and outreach | - | - | 34,345 | 34,345 | - | - | 36,056 | 36,056 |
| Registration fees | - | - | 2,186 | 2,186 | - | - | 10,384 | 10,384 |
| Rent | 12,825 | 1,327 | 1,569 | 15,721 | 43,066 | 4,446 | 5,150 | 52,662 |
| Repairs and maintenance | 16,307 | 1,687 | 1,996 | 19,990 | 8,091 | 835 | 968 | 9,894 |
| Supplies | 3,498 | 362 | 428 | 4,288 | 1,859 | 192 | 222 | 2,273 |
| Travel | 4,246 | 439 | 520 | 5,205 | 8,880 | 917 | 1,062 | 10,859 |
| Total Expenses | \$ 855,150 | \$ 176,047 | \$ 196,763 | \$ 1,227,960 | \$ 833,046 | \$ 158,863 | \$ 166,267 | \$ 1,158,176 |

The Notes to Financial Statements are an integral part of these statements.

ACTION ON SMOKING AND HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|--|-------------|-------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 770,147 | \$ (80,238) |
| Adjustments to reconcile change in net assets to net cash used by operating activities | | |
| Donated securities | (17,254) | (17,648) |
| Net appreciation in fair value on investments | (401,626) | (265,460) |
| (Increase) Decrease in | | |
| Accounts receivable | 100,664 | (100,664) |
| Grants and contributions receivable | (1,107,616) | (834) |
| Prepaid expenses | (4,730) | (1,734) |
| Increase (Decrease) in | | |
| Accounts payable | (17,852) | 24,657 |
| Accrued expenses and other liabilities | 20,534 | 13,034 |
| Deferred revenue | (11,881) | 80,526 |
| | (669,614) | (348,361) |
| Net Cash Used by Operating Activities | | |
| Cash Flows from Investing Activities | | |
| Sales and/or maturities of investments | 1,735,745 | 1,436,638 |
| Purchase of investments and reinvested earnings | (1,040,215) | (703,025) |
| | 695,530 | 733,613 |
| Net Cash Provided by Investing Activities | | |
| Cash Flows from Financing Activities | | |
| Proceeds from Paycheck Protection Program loan | 124,380 | - |
| | 124,380 | - |
| Net Cash Provided by Financing Activities | | |
| Net Increase in Cash and Cash Equivalents and Restricted Cash | 150,296 | 385,252 |
| Cash and Cash Equivalents and Restricted Cash, beginning of year | 665,300 | 280,048 |
| Cash and Cash Equivalents and Restricted Cash, end of year | \$ 815,596 | \$ 665,300 |

The Notes to Financial Statements are an integral part of these statements.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Action on Smoking and Health (ASH or the Organization) 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.

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.

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 and changes in net assets 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 contributions receivable in the accompanying statements of financial position. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Any amounts received in advance of meeting conditions are included in deferred revenue on the statements of financial position.

ASH recognizes revenue from exchange transactions in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. ASC Topic 606 provides a five-step model for recognizing revenue:

1. Identify the contract
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to performance obligations
5. Recognize revenue

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

ASH recognizes program service revenue from professional services at the point in time when the performance obligations of providing project deliverables are met. Payments are required at the milestone of deliverables; no amounts have been received in advance of completion of the milestones. Therefore, there are no contract liabilities related to program service revenue.

As of January 1, 2020, there was no accounts receivable related to program service revenue. As of December 31, 2020, accounts receivable of \$100,664 was related to program service revenue. For the year ended December 31, 2021, no program service revenue was earned. Therefore, there was no accounts receivable balance at December 31, 2021.

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 and restricted cash used in the statements of cash flows.

| | 2021 | 2020 |
|---------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 143,600 | \$ 62,663 |
| Restricted cash | 671,996 | 602,637 |
| Totals | <u>\$ 815,596</u> | <u>\$ 665,300</u> |

Receivables

Accounts receivable from program service revenue and 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, 2021 and 2020, all receivables 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, 2021 and 2020.

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 and changes in net assets as net appreciation 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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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:

| | 2021 | 2020 |
|------------------------|---------------------|---------------------|
| Investments | \$ 81,468 | \$ 64,334 |
| Restricted investments | 4,581,439 | 4,875,223 |
| Totals | <u>\$ 4,662,907</u> | <u>\$ 4,939,557</u> |

Property and Equipment

Property and equipment are recorded at cost. Major additions, replacements, and betterments with costs of at least \$1,000 and useful lives greater than one year are capitalized, while maintenance and repairs that do not improve or extend the useful 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 of five years. For the years ended December 31, 2021 and 2020, there was no depreciation expense, as all of ASH's property and equipment were fully depreciated.

Paycheck Protection Program Loan

As described in Note 5, ASH received a Paycheck Protection Program (PPP) loan. ASH accounts for the loan under Financial Accounting Standards Board (FASB) ASC Topic 470, *Debt*, whereby the amount will not be recognized as a gain on extinguishment until the Organization is legally released as primary obligor.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. 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.

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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measure of Operations

The accompanying statements of activities and changes in net assets 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.

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 years ended December 31, 2021 and 2020, there was no provision for income taxes required since ASH had no taxable income from unrelated business activities.

Accounting for Uncertain Tax Provisions

ASH complies with the provisions of FASB ASC Topic 740, *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, 2021 and 2020, no unrecognized tax provision or benefit exists in the accompanying financial statements.

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statements of activities and changes in net assets and the 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 |
| Bank fees | Time and effort |
| Dues and subscriptions | Time and effort |
| Insurance | Time and effort |
| Office expenses | Time and effort |
| Postage and shipping | Time and effort |
| Professional services | Time and effort |
| Rent | Time and effort |
| Repairs and maintenance | Time and effort |
| Supplies | Time and effort |
| Travel | Time and effort |

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 vary from the estimates that were used.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to a concentration of credit risk include cash deposits with a financial institution. The Organization's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may exceed the FDIC insurable limit of \$250,000 at times throughout the year until an appropriate transfer of funds can be made to another commercial bank. The Organization has not experienced any losses from such accounts and management does not consider this to be a significant risk.

New Accounting Pronouncements

ASU 2016-02

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases* (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. ASH is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

COVID-19

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary business closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industries in which ASH operates. In December 2020, the U.S. Food and Drug Administration approved the distribution of COVID-19 vaccines that, once widely adopted and utilized, may materially reduce the impact of COVID-19 going forward, although the impact of the virus including certain new strains remains uncertain. The impact, scope and duration of any new strains of the virus, and the ability to successfully distribute the vaccines, remain largely unknown. The extent of the impact of COVID-19 on ASH and its' financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which ASH operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

Reclassifications

Certain items in the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation. The reclassifications had no impact on previously reported net assets.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The date to which events occurring after December 31, 2021, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is October 11, 2022, which is the date on which the financial statements were available to be issued. On March 17, 2022, the PPP loan disclosed in Note 5 was forgiven by the U.S. Small Business Administration.

2. LIQUIDITY AND AVAILABILITY

The financial assets and liquidity resources available within one year of the statement of financial position date for general expenditure were as follows at December 31:

| | 2021 | 2020 |
|--|---------------------|-------------------|
| Cash and cash equivalents and restricted cash | \$ 815,596 | \$ 665,300 |
| Accounts receivable | - | 100,664 |
| Grants and contributions receivable | 1,150,365 | 42,749 |
| Investments and restricted investments | 4,662,907 | 4,939,557 |
| Financial assets, at year end | <u>6,628,868</u> | <u>5,748,270</u> |
| Amounts not available to be used within one year | | |
| Net assets with donor restrictions | 4,698,673 | 4,956,147 |
| Board-designated endowment | 554,762 | 521,713 |
| 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>5,013,435</u> | <u>5,237,860</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,615,433</u> | <u>\$ 510,410</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, accounts receivable, 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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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

| | 2021 | 2020 |
|--------------------------------|-------------|-------------|
| Furniture and equipment | \$ 1,343 | \$ 1,343 |
| Less: Accumulated depreciation | (1,343) | (1,343) |
| Totals | <u>\$ -</u> | <u>\$ -</u> |

4. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – inputs to the valuation methodology are based upon unadjusted quoted prices for identical assets or liabilities in active markets that ASH has the ability to access.

Level 2 – inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques (market, cost, or income approach). The market approach evaluates prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach evaluates the amount that would be required to replace the service capacity of an asset (i.e., replacement cost). The income approach uses techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following describes the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Corporate Bonds - Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted market prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risk.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

4. FAIR VALUE MEASUREMENTS (continued)

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.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ASH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

| | 2021 | | | Total |
|----------------------------|--------------|-----------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| Corporate bonds | \$ - | \$ 98,126 | \$ - | \$ 98,126 |
| Exchange-traded funds | 1,229,031 | - | - | 1,229,031 |
| Mutual funds | 2,219,310 | - | - | 2,219,310 |
| Common stocks | 1,116,440 | - | - | 1,116,440 |
| Total assets at fair value | \$ 4,564,781 | \$ 98,126 | \$ - | \$ 4,662,907 |

| | 2020 | | | Total |
|----------------------------|--------------|------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| Corporate bonds | \$ - | \$ 131,671 | \$ - | \$ 131,671 |
| Exchange-traded funds | 1,169,555 | - | - | 1,169,555 |
| Mutual funds | 2,330,410 | - | - | 2,330,410 |
| Common stocks | 1,307,921 | - | - | 1,307,921 |
| Total assets at fair value | \$ 4,807,886 | \$ 131,671 | \$ - | \$ 4,939,557 |

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

| | 2021 | 2020 |
|-------------------------------------|------------|------------|
| Interest and dividends, net of fees | \$ 110,490 | \$ 126,128 |
| Net appreciation in fair value | 401,626 | 265,460 |
| Totals | \$ 512,116 | \$ 391,588 |

5. PAYCHECK PROTECTION PROGRAM LOAN

On March 19, 2021, ASH received a loan pursuant to the PPP, a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), from a qualified lender for an aggregate principal amount of \$124,380 (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0 percent per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the SBA.

The principal amount of the PPP Loan is subject to forgiveness under the PPP upon ASH's request to the extent the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage payments incurred by ASH.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

5. PAYCHECK PROTECTION PROGRAM LOAN (continued)

While ASH believes that it has acted in compliance with the program and plans to seek forgiveness of the PPP Loan, no assurance can be provided that ASH will obtain forgiveness of the PPP Loan in whole or in part. The balance on the PPP Loan was \$124,380 as of December 31, 2021 and has been classified as a long-term liability on the December 31, 2021 statement of financial position.

To the extent that all or part of the PPP Loan is not forgiven, ASH will be required to pay interest on the PPP Loan at a rate of 1.0 percent per annum. Payments are not required to be made while ASH waits for the forgiveness decision if the borrower submits a loan forgiveness application within 10 months of the end of the covered period. The PPP Loan maturity date is in March 2026. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.

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 of 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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 percent, while growing the funds if possible. Therefore, ASH expects its endowment assets, over time, to produce an average rate of return of approximately 7 percent 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, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|----------------------------|---------------------|
| Board-designated endowment funds | \$ 554,762 | \$ - | \$ 554,762 |
| 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 | - | 1,659,821 | 1,659,821 |
| Totals | <u>\$ 554,762</u> | <u>\$ 4,198,673</u> | <u>\$ 4,753,435</u> |

Changes in the endowment net assets for the year ended December 31, 2021 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|----------------------------------|----------------------------|---------------------|
| Balance at December 31, 2020 | \$ 521,713 | \$ 4,456,147 | \$ 4,977,860 |
| Contributions | - | - | - |
| Interest and dividends, net of fees | 26,894 | 83,069 | 109,963 |
| Net appreciation | 22,944 | 379,146 | 402,090 |
| Spending withdrawals | (16,789) | (719,689) | (736,478) |
| Balance at December 31, 2021 | <u>\$ 554,762</u> | <u>\$ 4,198,673</u> | <u>\$ 4,753,435</u> |

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

6. ENDOWMENTS (continued)

Funds with Deficiencies (continued)

ASH's endowment net assets consist of the following as of December 31, 2020:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|----------------------------|--------------|
| Board-designated endowment funds | \$ 521,713 | \$ - | \$ 521,713 |
| 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 | - | 1,917,295 | 1,917,295 |
| Totals | \$ 521,713 | \$ 4,456,147 | \$ 4,977,860 |

Changes in the endowment net assets for the year ended December 31, 2020 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|-------------------------------------|----------------------------------|----------------------------|--------------|
| Balance at December 31, 2019 | \$ 521,032 | \$ 4,456,410 | \$ 4,977,442 |
| Contributions | 504 | - | 504 |
| Interest and dividends, net of fees | 18,372 | 94,713 | 113,085 |
| Net appreciation | 1,965 | 264,772 | 266,737 |
| Spending withdrawals | (20,160) | (359,748) | (379,908) |
| Balance at December 31, 2020 | \$ 521,713 | \$ 4,456,147 | \$ 4,977,860 |

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were composed of the following as of December 31:

| | 2021 | 2020 |
|------------------------|--------------|--------------|
| Future occupancy needs | \$ 500,000 | \$ 500,000 |
| Endowment | 4,198,673 | 4,456,147 |
| Totals | \$ 4,698,673 | \$ 4,956,147 |

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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

7. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, occurrence of events specified by donors, or the passage of time for the years ended December 31:

| | 2021 | 2020 |
|-----------|------------|------------|
| Programs | \$ 125,450 | \$ 81,225 |
| Endowment | 719,689 | 359,748 |
| Totals | \$ 845,139 | \$ 440,973 |

8. 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 \$28,445 and \$27,196 for the years ended December 31, 2021 and 2020, respectively.

9. CONDITIONAL GRANTS

ASH received grants that contain donor conditions. Since these grants represent conditional promises to give, they are not recorded as grant revenue until donor conditions are met.

As of December 31, the conditional grants and related conditions are as follows:

| | 2021 | 2020 |
|----------------------------------|------------|------------|
| Conditions | | |
| Specific output | \$ 126,264 | \$ 158,531 |
| Specific costs | 293,170 | 386,353 |
| Ending conditional grant balance | \$ 419,434 | \$ 544,884 |

The table below shows the change in conditional grants during the years ended December 31:

| | 2021 | 2020 |
|-------------------------------------|------------|------------|
| Beginning conditional grant balance | \$ 544,884 | \$ - |
| New conditional grants | - | 624,109 |
| Conditions satisfied | (125,450) | (79,225) |
| Ending conditional grant balance | \$ 419,434 | \$ 544,884 |

As of December 31, 2021 and 2020, funds received from the donors in advance of conditions being met totaled \$68,645 and \$80,526, respectively. These amounts are recorded as deferred revenue and will subsequently be recognized as grant revenue when donor conditions are met.

10. CONCENTRATION RISK

Financial instruments that potentially subject ASH to significant concentrations of credit risk consist of investments. Such investments are exposed to various risks such as market and credit fluctuation. 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 in the financial statements.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

10. CONCENTRATION RISK (continued)

For the years ended December 31, 2021 and 2020, one donor contributed more than 10 percent of total revenue each year. Donations from these donors accounted for 57 and 24 percent of ASH's total revenue for the year, respectively.

For the years ended December 31, 2021 and 2020, one and two donor receivable balances accounted for more than 10 percent of the total balance. Receivables from these donors accounted for 98 and 100 percent of the ASH's total receivable balance at December 31, 2021 and 2020, respectively.

11. LEASE COMMITMENT

ASH leases individual offices in a shared office space on a month-to-month basis. Three individual offices were leased during the year ended December 31, 2020, and one individual office was leased during the year ended December 31, 2021. Rent expense was \$15,721 and \$52,662 for the years ended December 31, 2021 and 2020, respectively.