



FINANCIAL REPORT



ACTION ON SMOKING AND HEALTH

YEARS ENDED DECEMBER 31, 2023 AND 2022

ACTION ON SMOKING AND HEALTH
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CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 18

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 statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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, 2023 and 2022, 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.

Basis for Opinion

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

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 Audits 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
August 14, 2024

ACTION ON SMOKING AND HEALTH

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 75,289	\$ 345,394
Grants and contributions receivable	163,534	48,545
Prepaid expenses	9,176	12,189
Investments	75,011	74,501
Total Current Assets	323,010	480,629
Property and Equipment, net	1,140	-
Other Assets		
Security deposit	5,085	5,085
Restricted cash	451,406	660,765
Restricted investments	3,901,748	3,787,442
Total Other Assets	4,358,239	4,453,292
Total Assets	\$ 4,682,389	\$ 4,933,921
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 41,229	\$ 39,490
Accrued expenses and other liabilities	149,545	201,203
Total Current Liabilities	190,774	240,693
Net Assets		
Without donor restrictions		
Undesignated	118,461	245,021
Board-designated	536,747	499,789
Total Without Donor Restrictions	655,208	744,810
With donor restrictions	3,836,407	3,948,418
Total Net Assets	4,491,615	4,693,228
Total Liabilities and Net Assets	\$ 4,682,389	\$ 4,933,921

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, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Grants	\$ 5,000	\$ 282,604	\$ 287,604	\$ -	\$ 287,366	\$ 287,366
Contributions	317,919	20,000	337,919	144,210	-	144,210
PPP loan forgiveness income	-	-	-	124,380	-	124,380
Other income	-	-	-	576	-	576
Net assets released from restrictions	482,604	(482,604)	-	287,366	(287,366)	-
Total Revenue and Support	<u>805,523</u>	<u>(180,000)</u>	<u>625,523</u>	<u>556,532</u>	<u>-</u>	<u>556,532</u>
Expenses						
Program services						
Public education	930,996	-	930,996	934,872	-	934,872
Supporting services						
Management and general	213,560	-	213,560	159,227	-	159,227
Fundraising	181,530	-	181,530	236,507	-	236,507
Total Supporting Services	<u>395,090</u>	<u>-</u>	<u>395,090</u>	<u>395,734</u>	<u>-</u>	<u>395,734</u>
Total Expenses	<u>1,326,086</u>	<u>-</u>	<u>1,326,086</u>	<u>1,330,606</u>	<u>-</u>	<u>1,330,606</u>
Change in Net Assets from Operations	(520,563)	(180,000)	(700,563)	(774,074)	-	(774,074)
Non-Operating Income						
Interest and dividends, net of fees	10,221	82,594	92,815	18,968	68,170	87,138
Net appreciation (depreciation) in fair value of investments	32,665	373,470	406,135	(76,070)	(765,813)	(841,883)
Endowment releases	388,075	(388,075)	-	52,612	(52,612)	-
Change in Net Assets	(89,602)	(112,011)	(201,613)	(778,564)	(750,255)	(1,528,819)
Net Assets, beginning of year	<u>744,810</u>	<u>3,948,418</u>	<u>4,693,228</u>	<u>1,523,374</u>	<u>4,698,673</u>	<u>6,222,047</u>
Net Assets, end of year	<u>\$ 655,208</u>	<u>\$ 3,836,407</u>	<u>\$ 4,491,615</u>	<u>\$ 744,810</u>	<u>\$ 3,948,418</u>	<u>\$ 4,693,228</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, 2023 AND 2022

	2023				2022			
	Public Education	Management and General	Fundraising	Total	Public Education	Management and General	Fundraising	Total
Payroll-related expenses								
Salaries	\$ 619,459	\$ 70,071	\$ 75,828	\$ 765,358	\$ 618,060	\$ 64,036	\$ 76,616	\$ 758,712
Employee benefits	112,482	12,723	13,769	138,974	97,405	10,092	12,075	119,572
Payroll taxes	51,378	5,812	6,289	63,479	46,333	4,800	5,744	56,877
Total payroll-related expenses	<u>783,319</u>	<u>88,606</u>	<u>95,886</u>	<u>967,811</u>	<u>761,798</u>	<u>78,928</u>	<u>94,435</u>	<u>935,161</u>
Bank fees	12,617	1,427	1,545	15,589	12,608	1,306	1,563	15,477
Communications	11,371	-	-	11,371	8,853	-	-	8,853
Consultants	4,002	14,045	45,301	63,348	13,011	-	77,034	90,045
Depreciation	461	52	57	570	-	-	-	-
Dues and subscriptions	23,987	2,713	2,937	29,637	24,007	2,487	2,976	29,470
Insurance	9,451	1,069	1,157	11,677	9,079	941	1,125	11,145
Office expenses	758	86	92	936	11,951	1,238	1,482	14,671
Offsite storage	17,006	1,924	2,081	21,011	12,148	1,259	1,506	14,913
Postage and shipping	493	56	60	609	1,157	120	143	1,420
Professional services	17,617	98,614	697	116,928	3,610	69,662	447	73,719
Promotion and outreach	-	-	20,565	20,565	-	-	48,023	48,023
Registration fees	-	-	5,776	5,776	-	-	3,841	3,841
Short-term lease	13,310	1,506	1,629	16,445	13,365	1,385	1,657	16,407
Supplies	4,439	502	543	5,484	3,255	337	404	3,996
Travel	32,165	2,960	3,204	38,329	60,030	1,564	1,871	63,465
	<u>\$ 930,996</u>	<u>\$ 213,560</u>	<u>\$ 181,530</u>	<u>\$ 1,326,086</u>	<u>\$ 934,872</u>	<u>\$ 159,227</u>	<u>\$ 236,507</u>	<u>\$ 1,330,606</u>
Total Expenses								

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, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ (201,613)	\$ (1,528,819)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Donated securities	(5,023)	-
Depreciation	570	-
Net depreciation (appreciation) in fair value on investments	(406,135)	841,883
Forgiveness of Paycheck Protection Program loan	-	(124,380)
(Increase) Decrease in		
Grants and contributions receivable	(114,989)	1,101,820
Prepaid expenses	3,013	5,044
Increase (Decrease) in		
Accounts payable	1,739	10,457
Accrued expenses and other liabilities	(51,658)	(5,878)
Deferred revenue	-	(68,645)
	(774,096)	231,482
Net Cash (Used) Provided by Operating Activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,710)	-
Sales and/or maturities of investments	1,146,233	509,148
Purchase of investments and reinvested earnings	(849,891)	(550,067)
	294,632	(40,919)
Net Cash Provided (Used) by Investing Activities		
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	(479,464)	190,563
Cash and Cash Equivalents and Restricted Cash, beginning of year	1,006,159	815,596
Cash and Cash Equivalents and Restricted Cash, end of year	\$ 526,695	\$ 1,006,159

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

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 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 are 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.

Interest, dividends, net (depreciation) appreciation of investments and other income are recognized in the period earned.

ASH has no fee for service revenue for the years ended December 31, 2023 or December 31, 2022. ASH also had no accounts receivable, contract assets, or contract liabilities associated with fee for service revenue at January 1, 2022.

Cash and Cash Equivalents and Restricted Cash

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

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Cash and Cash Equivalents and Restricted Cash (continued)

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.

	2023	2022
Cash and cash equivalents	\$ 75,289	\$ 345,394
Restricted cash	451,406	660,765
Totals	<u>\$ 526,695</u>	<u>\$ 1,006,159</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 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, 2023 and 2022, all 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, 2023 and 2022.

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 (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:

	2023	2022
Investments	\$ 75,011	\$ 74,501
Restricted investments	3,901,748	3,787,442
Totals	<u>\$ 3,976,759</u>	<u>\$ 3,861,943</u>

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

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 three years. For the year ended December 31, 2023, depreciation expense totaled \$570. For the year ended December 31, 2022, 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) Accounting Standards Codification (ASC) Topic 470, *Debt*, whereby the amount will not be recognized as a gain on extinguishment until ASH is legally released as primary obligor.

Net Assets

Net assets, revenue, support, 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.

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.

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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

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, 2023 and 2022, 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, 2023 and 2022, 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
Depreciation	Time and effort
Dues and subscriptions	Time and effort
Insurance	Time and effort
Office expenses	Time and effort
Offsite storage	Time and effort
Postage and shipping	Time and effort
Professional services	Time and effort
Short-term lease	Time and effort
Supplies	Time and effort
Travel	Time and effort

Concentration of Credit Risk

Financial instruments which potentially subject ASH to a concentration of credit risk include cash deposits with a financial institution. ASH'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. ASH has not experienced any losses from such accounts and management does not consider this to be a significant risk.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Leases

At lease inception, ASH determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the financial statements. Finance leases are included in property and equipment and finance lease liabilities in the financial statements, as applicable.

ROU assets represent ASH's right to use leased assets over the term of the lease. Lease liabilities represent ASH's contractual obligation to make lease payments over the lease term.

ASH uses the rate implicit in the lease if it is readily determinable. Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, includes an accounting policy election for non-public business entities to use the risk-free rate for the measurement of lease liabilities when the rate implicit in the lease is not determinable. ASH elected to utilize the risk-free rate for the measurement of liabilities for initial transition and going forward. This rate will be applied to all leases using a period comparable to the lease.

Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to ASH if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. ASH has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with any short-term leases or variable lease payments is included in short-term lease expense in the statements of functional expenses, as applicable.

For finance leases, after lease commencement the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset associated with finance leases, which is included in property and equipment, is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term.

To the extent a lease arrangement includes both lease and non-lease components, ASH has elected to account for the components as a single lease component.

Reclassifications

Certain items in the December 31, 2022 financial statements have been reclassified to conform to the December 31, 2023 financial statement presentation. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The date to which events occurring after December 31, 2023, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is August 14, 2024, which is the date on which the financial statements were available to be issued.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

2. LIQUIDITY AND AVAILABILITY

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 budget and compares it to actual results throughout the year. ASH anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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:

	2023	2022
Cash and cash equivalents and restricted cash	\$ 526,695	\$ 1,006,159
Grants and contributions receivable	163,534	48,545
Investments and restricted investments	<u>3,976,759</u>	<u>3,861,943</u>
Financial assets, at year end	<u>4,666,988</u>	<u>4,916,647</u>
Amounts not available to be used within one year		
Net assets with donor restrictions	3,836,407	3,948,418
Board-designated endowment	536,747	499,789
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>4,133,154</u>	<u>4,208,207</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 533,834</u>	<u>\$ 708,440</u>

3. PROPERTY AND EQUIPMENT

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

	2023	2022
Furniture and equipment	\$ 3,053	\$ 1,343
Less: Accumulated depreciation	<u>(1,913)</u>	<u>(1,343)</u>
Totals	<u>\$ 1,140</u>	<u>\$ -</u>

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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, 2023 and 2022.

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. These types of investments are classified within Level 1.

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. Corporate bonds are classified within Level 2.

Other Assets – Other assets are generally valued at the most recent price of the equivalent quoted price for such securities and are classified within Level 2.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

4. FAIR VALUE MEASUREMENTS (continued)

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 table summarizes ASH's investments at fair value as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 85,348	\$ -	\$ 85,348
Exchange-traded funds	1,046,583	-	-	1,046,583
Mutual funds	1,950,496	-	-	1,950,496
Common stocks	876,846	-	-	876,846
Other assets	-	17,486	-	17,486
Total assets at fair value	<u>\$ 3,873,925</u>	<u>\$ 102,834</u>	<u>\$ -</u>	<u>\$ 3,976,759</u>

The following table summarizes ASH's investments at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds	\$ -	\$ 88,620	\$ -	\$ 88,620
Exchange-traded funds	1,157,574	-	-	1,157,574
Mutual funds	1,692,305	-	-	1,692,305
Common stocks	923,444	-	-	923,444
Total assets at fair value	<u>\$ 3,773,323</u>	<u>\$ 88,620</u>	<u>\$ -</u>	<u>\$ 3,861,943</u>

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

	<u>2023</u>	<u>2022</u>
Interest and dividends, net of fees	\$ 92,815	\$ 87,138
Net appreciation (depreciation) in fair value	406,135	(841,883)
Totals	<u>\$ 498,950</u>	<u>\$ (754,745)</u>

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.

ASH applied for forgiveness of the PPP Loan during the year ended December 31, 2022 and received full forgiveness of the \$124,380 from the SBA on March 17, 2022. The amount of the loan forgiveness is separately presented on the statements of activities and changes in net assets.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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.

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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

6. ENDOWMENTS (continued)

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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 536,747	\$ -	\$ 536,747
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	-	977,555	977,555
Totals	\$ 536,747	\$ 3,516,407	\$ 4,053,154

Changes in the endowment net assets for the year ended December 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at December 31, 2022	\$ 499,789	\$ 3,448,418	\$ 3,948,207
Contributions	-	-	-
Interest and dividends, net of fees	19,618	82,594	102,212
Net appreciation	28,826	373,470	402,296
Spending withdrawals	(11,486)	(388,075)	(399,561)
Balance at December 31, 2023	\$ 536,747	\$ 3,516,407	\$ 4,053,154

ASH's endowment net assets consist of the following as of December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 499,789	\$ -	\$ 499,789
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	-	909,566	909,566
Totals	\$ 499,789	\$ 3,448,418	\$ 3,948,207

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

6. ENDOWMENTS (continued)

Changes in the endowment net assets for the year ended December 31, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2021	\$ 554,762	\$ 4,198,673	\$ 4,753,435
Contributions	-	-	-
Interest and dividends, net of fees	17,748	68,170	85,918
Net depreciation	(68,333)	(765,813)	(834,146)
Spending withdrawals	(4,388)	(52,612)	(57,000)
Balance at December 31, 2022	<u>\$ 499,789</u>	<u>\$ 3,448,418</u>	<u>\$ 3,948,207</u>

7. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Future occupancy needs	\$ 300,000	\$ 500,000
Program - Public Education	20,000	-
Endowment	3,516,407	3,448,418
Totals	<u>\$ 3,836,407</u>	<u>\$ 3,948,418</u>

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

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:

	<u>2023</u>	<u>2022</u>
Future occupancy needs	\$ 200,000	\$ -
Program - Public Education	282,604	287,366
Endowment	388,075	52,612
Totals	<u>\$ 870,679</u>	<u>\$ 339,978</u>

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 \$30,196 and \$30,475 for the years ended December 31, 2023 and 2022, 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.

ACTION ON SMOKING AND HEALTH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

9. **CONDITIONAL GRANTS** (continued)

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

	<u>2023</u>	<u>2022</u>
Conditions		
Specific output	\$ -	\$ 105,557
Specific costs	127,157	209,260
Ending conditional grant balance	<u>\$ 127,157</u>	<u>\$ 314,817</u>

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

	<u>2023</u>	<u>2022</u>
Beginning conditional grant balance	\$ 314,817	\$ 419,434
New conditional grants	-	105,557
Conditions that were not satisfied	-	(17,808)
Conditions satisfied	<u>(187,660)</u>	<u>(192,366)</u>
Ending conditional grant balance	<u>\$ 127,157</u>	<u>\$ 314,817</u>

As of December 31, 2023 and 2022, there was no deferred revenue for funds received from the donors in advance of conditions being 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.

For the years ended December 31, 2023 and 2022, three donors contributed more than 10 percent of total revenue and support. Donations from these donors accounted for 39 and 53 percent of ASH's total revenue and support for the years ended December 31, 2023 and 2022, respectively.

For the years ended December 31, 2023 and 2022, four and two donor receivable balances accounted for more than 10 percent of the total balance, respectively. Receivables from these donors accounted for 72 and 100 percent of ASH's total receivable balance at December 31, 2023 and 2022, respectively.

11. **LEASE COMMITMENT**

ASH leased one individual office in a shared office space on a month-to-month basis during the years ended December 31, 2023 and 2022. Short-term lease expense was \$16,445 and \$16,407 for the years ended December 31, 2023 and 2022, respectively.