

**AMERICANS UNITED FOR SEPARATION
OF CHURCH AND STATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

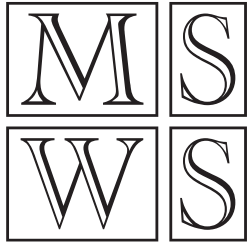


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Americans United for Separation
of Church and State
Washington D.C.

We have audited the accompanying financial statements of Americans United for Separation of Church and State, (a non-profit Organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors of
Americans United for Separation of Church and State

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Americans United for Separation of Church and State as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detail schedule of expenses on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Americans United for Separation of Church and State's 2013 financial statements, and our report dated March 13, 2014 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative financial information presented herein as of and for the year ended September 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
March 12, 2015

Americans United for Separation of Church and State
STATEMENT OF FINANCIAL POSITION
September 30, 2014

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 661,411	\$ 489,636
Investments	9,271,049	8,494,787
Bequests receivable	189,251	157,137
Interest receivable	22,770	18,274
Pledges receivable	50,000	-
Other receivables	107,441	29,549
Inventory	3,716	2,729
Prepaid expenses	89,839	64,530
Deposits	247,401	146,140
Total current assets	10,642,878	9,402,782
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	130,482	215,955
OTHER ASSETS		
Cash and cash equivalents, remainder trust	6,750	6,899
Investments restricted for remainder trust	293,444	301,812
Pledges receivable, long-term, net	101,279	-
Total other assets	401,473	308,711
Total assets	\$ 11,174,833	\$ 9,927,448
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 108,176	\$ 71,887
Accrued expenses	260,366	357,461
Accrued pension	1,002,670	1,137,327
Deferred revenue	50,380	5,675
Deferred rent	8,289	11,532
Capital lease obligations	18,611	15,841
Charitable annuities payable	167,359	142,253
Total current liabilities	1,615,851	1,741,976
LONG-TERM LIABILITIES		
Deferred rent	-	58,907
Charitable annuities payable	801,700	716,727
Capital lease obligations	56,573	63,655
Remainder trust payable	178,063	186,307
Total long-term liabilities	1,036,336	1,025,596
Total liabilities	2,652,187	2,767,572
NET ASSETS		
Unrestricted	1,294,640	725,129
Unrestricted, Board designated	6,914,513	6,230,912
Temporarily restricted	313,493	203,835
Total net assets	8,522,646	7,159,876
Total liabilities and net assets	\$ 11,174,833	\$ 9,927,448

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

Americans United for Separation of Church and State
STATEMENT OF ACTIVITIES
Year Ended September 30, 2014
With Summarized Financial Information for the Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	2014	2013
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 3,412,939	\$ 151,279	\$ 3,564,218	\$ 3,334,840
Bequests	1,752,843	-	1,752,843	610,851
Realized and unrealized gain on investments	570,581	-	570,581	1,155,801
Investment income, net of expenses	379,944	-	379,944	299,775
Trust and foundation grants	374,564	-	374,564	355,734
Gift annuity income	199,621	-	199,621	57,272
Special events	92,869	-	92,869	41,698
Other revenue	55,702	-	55,702	35,636
Sales of literature	5,732	-	5,732	3,298
Contributions - chapters	4,591	-	4,591	6,820
Contributions - local churches	1,986	-	1,986	2,233
Legal settlement	-	-	-	12,500
Change in value of split interest agreements	(97,755)	(273)	(98,028)	(70,163)
	<u>6,753,617</u>	<u>151,006</u>	<u>6,904,623</u>	<u>5,846,295</u>
Net assets released from restriction	41,348	(41,348)	-	-
Total revenues, gains, and other support	<u>6,794,965</u>	<u>109,658</u>	<u>6,904,623</u>	<u>5,846,295</u>
EXPENSES				
Program services				
Educational and publication division	1,464,474	-	1,464,474	1,682,489
Field services division	924,320	-	924,320	839,628
Legal division	1,132,680	-	1,132,680	1,157,221
Trustees and national advisory council meetings	41,798	-	41,798	43,266
Total program services	<u>3,563,272</u>	<u>-</u>	<u>3,563,272</u>	<u>3,722,604</u>
Supporting services				
Management and general	891,646	-	891,646	879,265
Fundraising	1,272,210	-	1,272,210	897,545
Total supporting services	<u>2,163,856</u>	<u>-</u>	<u>2,163,856</u>	<u>1,776,810</u>
Total expenses	<u>5,727,128</u>	<u>-</u>	<u>5,727,128</u>	<u>5,499,414</u>
Change in net assets before other items	1,067,837	109,658	1,177,495	346,881
OTHER ITEMS				
Adjustment on termination of deferred rent	50,618	-	50,618	-
Minimum pension liability adjustment	134,657	-	134,657	(107,358)
Change in net assets	<u>1,253,112</u>	<u>109,658</u>	<u>1,362,770</u>	<u>239,523</u>
NET ASSETS AT BEGINNING OF YEAR	<u>6,956,041</u>	<u>203,835</u>	<u>7,159,876</u>	<u>6,920,353</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,209,153</u>	<u>\$ 313,493</u>	<u>\$ 8,522,646</u>	<u>\$ 7,159,876</u>

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

Americans United for Separation of Church and State
STATEMENT OF CASH FLOWS
Year Ended September 30, 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,362,770	\$ 239,523
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	107,081	100,267
Realized and unrealized gain on investments	(570,581)	(1,155,801)
Change in value of split interest agreements	98,028	70,163
Change in present value discount on pledges	6,221	-
Contributions and grants restricted for long-term purposes	(232,500)	-
Donated securities	(61,666)	(32,458)
(Increase) decrease in operating assets:		
Bequests receivable	(32,114)	(31,725)
Interest receivable	(4,496)	1,766
Other receivables	(77,892)	321,422
Inventory	(987)	2,470
Prepaid expenses	(25,309)	2,027
Deposits	(101,261)	(15,624)
Increase (decrease) in operating liabilities:		
Accounts payable	36,289	(56,465)
Accrued expenses	(97,095)	41,388
Accrued pension	(134,657)	107,358
Deferred revenue	44,705	(1,575)
Deferred rent	(62,150)	3,715
Net cash provided (used) by operating activities	254,386	(403,549)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including income reinvested	(9,448,877)	(8,658,071)
Proceeds from sales of investments	9,313,230	9,237,405
Purchase of equipment	(9,220)	(13,261)
Net cash provided (used) by investing activities	(144,867)	566,073
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections of contributions restricted for long-term purposes	75,000	-
Change in cash restricted by remainder trust	149	150
Increase in annuities payable from new gifts	160,055	62,728
Investment income on annuity funds	6,723	21,361
Principal payments on capital lease obligations	(16,700)	(5,145)
Payments on annuities payable	(162,971)	(154,106)
Net cash provided (used) by financing activities	62,256	(75,012)
Net change in cash and cash equivalents	171,775	87,512
Cash and cash equivalents at beginning of year	489,636	402,124
Cash and cash equivalents at end of year	\$ 661,411	\$ 489,636
SUPPLEMENTARY DISCLOSURES:		
Cash paid during the year for interest	\$ 3,093	\$ 1,074
Noncash investing and financing activities		
Purchase of equipment	\$ 21,608	\$ 97,902
Less amount financed	(12,388)	(84,641)
Cash paid to acquire property and equipment	\$ 9,220	\$ 13,261

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

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

Note 1 - Summary of Significant Accounting Policies

Nature of Organization

Americans United for Separation of Church and State (the “Organization”) is organized as a non-profit educational Organization, and is granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The objective of the Organization is to defend, maintain, and promote religious liberty and the constitutional principle of the separation of church and state. The Organization’s primary sources of support and revenues are contributions and investment income.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended September 30, 2013, from which the summarized information was derived.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. It is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

Income Tax Position

The Organization follows the guidance of ASC 740-10, "*Accounting for Uncertainty in Income Taxes*" which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and Board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Washington, D.C. statute. The Organization does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after September 30, 2011 remain subject to examination by federal and State authorities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents represent deposits in checking and savings accounts and certificates of deposit with maturities of ninety days or less, except those that are part of an investment portfolio.

Investments

Investments are presented in the financial statements at quoted fair value. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the statement of activities. Investments consist of various debt and equity investment vehicles, and cash and money market funds held by a broker.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Cont.)

Accounts Receivable

Accounts receivable are stated at the full amount, an allowance for doubtful accounts is not deemed necessary by management.

Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable. Generally, the Organization records pledges receivable as temporarily restricted contributions revenue. Upon collection of the pledge, the assets are transferred to the appropriate net asset category based on the donor's intent. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Bequests

The Organization has been named as beneficiary of various estates. Revenue is recognized when the Organization is notified and the amount of the bequest is known.

Inventory

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment

Organization policy dictates capitalization of property, plant and equipment costing \$1,000 or more. Property and equipment are stated at cost. Gifts of long-lived assets such as land, buildings, or equipment are recorded at their fair value. Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets.

Advertising

The Organization expenses advertising costs when incurred. Advertising expenses were \$523 and \$15,572 for the years ended September 30, 2014 and 2013, respectively.

Reclassification of Prior Year Balances

Certain reclassifications of the prior year balances have been made to confirm to current year presentation.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 2 - Concentration of Cash Balances

At September 30, 2014 and 2013 and at various times during the fiscal years then ended, the Organization maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts held in excess of FDIC insurance coverage as of September 30, 2014 and 2013 were \$327,947 and \$-0-, respectively.

Note 3 - Investments

Investments are presented in the financial statements at market value. Donated securities are recorded at fair market value on the date of the gift. Investments consisted of the following for the years ended September 30:

	2014		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Corporate stocks	\$ 5,572,424	\$ 5,588,252	\$ 15,828
Preferred stocks	11,735	11,400	(335)
Fixed rate capital securities	1,705,624	1,663,248	(42,376)
Mortgage backed assets	90	90	-
Exchange traded funds	354,744	418,798	64,054
Mutual funds	482	482	-
Bonds	1,555,064	1,588,779	33,715
	9,200,163	9,271,049	70,886
Restricted investments - annuities	341,742	293,444	(48,298)
	<u>\$ 9,541,905</u>	<u>\$ 9,564,493</u>	<u>\$ 22,588</u>
	2013		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Cash and money market funds	\$ 32,121	\$ 32,121	\$ -
Corporate stocks	4,938,882	5,416,130	477,248
Preferred stocks	129,087	123,390	(5,697)
Fixed rate capital securities	926,747	898,019	(28,728)
Mortgage backed assets	130	130	-
Exchange traded funds	337,925	406,609	68,684
Mutual funds	426	426	-
Bonds	1,593,782	1,617,962	24,180
	7,959,100	8,494,787	535,687
Restricted investments - annuities	356,982	301,812	(55,170)
	<u>\$ 8,316,082</u>	<u>\$ 8,796,599</u>	<u>\$ 480,517</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 3 - Investments (Cont.)

Realized and unrealized gain on the value of investments for the years ended September 30, 2014 and 2013 amounted to \$570,581 and \$1,155,801, respectively.

Investment income is reported net of related expenses of \$94,382 and \$83,088 for the years ended September 30, 2014 and 2013, respectively.

Note 4 - Fair Value Measurement

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Organization measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability at the measurement date.

The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and significant to the fair value measurement.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable requires significant judgment by the Organization's management with the consultation of its investment advisors. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The classification of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument.

At September 30, 2014 and 2013, investments were classified by the level of input as stipulated by the fair value hierarchy using the market value approach.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 4 - Fair Value Measurement (Cont.)

Investment whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include corporate equities, preferred stocks, fixed rate capital securities, exchange traded funds, mutual funds, bonds and money markets.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified with Level 2. These include certain mortgage backed assets, unit investment trusts and annuities. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

Liabilities classified within Level 3 have significant unobservable inputs. Level 3 liabilities include pledges receivable, charitable gift annuities payable and remainder trusts. Pledges receivable are reflected at present value of estimated future cash flows using a discount rate of 3.25% based on the prime rate at September 30, 2014. The Organization uses the actuarial method of recording annuity contracts. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables. The charitable gift annuity liability account is credited with investment income and gains and is charged with investment losses and payments to the beneficiary. Periodic adjustments are made between the liability account and the net asset account for actuarial gains and losses.

There have been no changes in investment valuation techniques or inputs.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 4 - Fair Value Measurement (Cont.)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Corporate stocks				
Financial services	\$ 1,529,891	\$ -	\$ -	\$ 1,529,891
Basic materials	1,020,538	-	-	1,020,538
Communication services	909,047	-	-	909,047
Utilities	630,274	-	-	630,274
Energy	464,195	-	-	464,195
Consumer cyclical	418,215	-	-	418,215
Healthcare	408,376	-	-	408,376
Industrials	188,682	-	-	188,682
Technology	19,035	-	-	19,035
Preferred stocks: financial services	11,400	-	-	11,400
Fixed-rate capital securities	1,663,246	-	-	1,663,246
Mortgage backed assets	-	90	-	90
Exchange traded funds				
China region	418,798	-	-	418,798
Mutual funds				
Balanced funds	482	-	-	482
Bonds				
U. S. government bonds	374	-	-	374
Corporate bonds	1,588,406	-	-	1,588,406
Restricted annuities	-	293,444	-	293,444
Total investments	9,270,959	293,534	-	9,564,493
Pledges receivable	-	-	151,279	151,279
Total assets	<u>\$ 9,270,959</u>	<u>\$ 293,534</u>	<u>\$ 151,279</u>	<u>\$ 9,715,772</u>
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 969,059	\$ 969,059
Remainder trust payable	-	-	178,063	178,063
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,147,122</u>	<u>\$ 1,147,122</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 4 - Fair Value Measurement (Cont.)

September 30, 2013	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and money market funds	\$ 32,121	\$ -	\$ -	\$ 32,121
Corporate stocks				
Financial services	1,221,705	-	-	1,221,705
Energy	998,608	-	-	998,608
Utilities	731,350	-	-	731,350
Basic materials	582,521	-	-	582,521
Communication services	537,241	-	-	537,241
Consumer cyclical	374,475	-	-	374,475
Industrials	361,105	-	-	361,105
Technology	329,204	-	-	329,204
Healthcare	279,921	-	-	279,921
Preferred stocks: financial services	123,390	-	-	123,390
Fixed-rate capital securities	898,019	-	-	898,019
Mortgage backed assets	-	130	-	130
Exchange traded funds				
China region	406,609	-	-	406,609
Mutual funds				
Balanced funds	426	-	-	426
Bonds				
U. S. government bonds	427	-	-	427
Corporate bonds	1,617,535	-	-	1,617,535
Restricted annuities	-	301,812	-	301,812
Total assets	\$ 8,494,657	\$ 301,942	\$ -	\$ 8,796,599
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 858,980	\$ 858,980
Remainder trust payable	-	-	186,307	186,307
Total liabilities	\$ -	\$ -	\$ 1,045,287	\$ 1,045,287

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 4 - Fair Value Measurement (Cont.)

The following table is a roll forward of the statement of financial position amounts for financial instruments classified within Level 3. Fair value measurement as of September 30, 2014 and 2013 using Level 3 inputs is as follows:

	Pledges Receivable	Charitable Annuities Payable	Remainder Trust Payable	Total
Balance as of September 30, 2012	\$ -	\$ 859,930	\$ 185,211	\$ 1,045,141
Investment gain	-	-	21,361	21,361
Contributions	-	62,728	-	62,728
Payments to annuitants	-	(139,588)	(14,518)	(154,106)
Actuarial adjustment	-	75,910	(5,747)	70,163
Balance as of September 30, 2013	<u>\$ -</u>	<u>\$ 858,980</u>	<u>\$ 186,307</u>	<u>\$ 1,045,287</u>
Balance as of September 30, 2013	\$ -	\$ 858,980	\$ 186,307	\$ 1,045,287
Investment gain	-	-	6,723	6,723
Contributions	250,000	160,055	-	410,055
Collections	(75,000)	-	-	(75,000)
Change in allowance for doubtful accounts	(17,500)	-	-	(17,500)
Change in present value discount	(6,221)	-	-	(6,221)
Payments to annuitants	-	(147,731)	(15,240)	(162,971)
Actuarial adjustment	-	97,755	273	98,028
Balance as of September 30, 2014	<u>\$ 151,279</u>	<u>\$ 969,059</u>	<u>\$ 178,063</u>	<u>\$ 1,298,401</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 5 - Pledges Receivable

Pledges receivable consist of the following at September 30:

	<u>2014</u>	<u>2013</u>
Pledges receivable in less than one year	\$ 50,000	\$ -
Pledges receivable due in one to five years	<u>125,000</u>	<u>-</u>
Total pledges receivable	175,000	-
Less: discounts to net present value	(6,221)	-
Less: allowance for doubtful accounts	<u>(17,500)</u>	<u>-</u>
	<u>\$ 151,279</u>	<u>\$ -</u>

The Organization has elected to follow ASC 825 to account for changes in fair value of pledges receivable. As of September 30, 2014 pledges receivable are reflected at present value of estimated future cash flows using a discount rate of 3.25% based on the prime rate at September 30, 2014.

Note 6 - Property and Equipment

Property and equipment consisted of the following for the years ended September 30:

	<u>Estimated Lives</u>	<u>2014</u>	<u>2013</u>
Land	--	\$ 2,400	\$ 2,400
Mineral rights	--	2,970	2,970
Leasehold improvements	7 years	88,079	88,079
Furniture and equipment	5-7 years	630,981	614,465
Vehicles	5 years	28,567	28,567
Website development	3-5 years	<u>117,190</u>	<u>117,190</u>
		870,187	853,671
Less accumulated depreciation		<u>(739,705)</u>	<u>(637,716)</u>
Net property and equipment		<u>\$ 130,482</u>	<u>\$ 215,955</u>

Depreciation and amortization expense for the years ended September 30, 2014 and 2013 amounted to \$107,081 and \$100,267, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 7 - Defined Benefit Plan

The Organization has a defined benefit pension Plan that covers those employees who have been employed with the Organization for at least one year in which 1,000 or more hours of service were rendered and had not attained 65 years of age at the date of employment. The Plan calls for benefits to be paid to eligible employees at retirement, based primarily upon years of service with the Organization and compensation rates near retirement. Effective October 1, 2008, the Plan was frozen. Existing employees will no longer accrue benefits and the pension Plan is no longer available to new employees.

The Organization contributes to the Plan based on the actuarially determined amounts necessary to provide assets sufficient to meet benefits to be paid to Plan members. Plan assets consist of a deposit administration contract with Principal Financial Group. The annual measurement date is September 30 for the pension benefit. Contributions to the Plan for the years ended September 30, 2014 and 2013 were \$105,000 and \$113,000, respectively. The Organization expects to contribute \$168,340 to the Plan during the year ended September 30, 2015. No Plan assets are expected to be returned to the Organization during the year ended September 30, 2015.

The following tables set forth further information about the Organization's defined benefit pension Plan as of and for the years ended September 30:

	2014	2013
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 3,799,723	\$ 3,390,167
Interest cost	205,616	185,390
Actuarial loss/(gain)	82,225	289,014
Benefits paid	(134,061)	(64,848)
Projected benefit obligation, end of year	3,953,503	3,799,723
Change in Plan assets		
Fair value of Plan assets, beginning of year	2,662,396	2,360,198
Actual return on Plan assets	317,498	254,046
Employer contributions	105,000	113,000
Benefits paid	(134,061)	(64,848)
Fair value of Plan assets, end of year	2,950,833	2,662,396
Funded status	\$ (1,002,670)	\$ (1,137,327)

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 7 - Defined Benefit Plan (Cont.)

The change in the defined benefit pension Plan deferrals is comprised of the following for the years ended September 30:

	2014	2013
Interest cost	\$ 205,616	\$ 185,390
Expected return on Plan assets	(143,063)	(128,742)
Net amortization/deferral		
Amortization of prior service cost	768	768
Amortization of net loss	39,557	38,372
Net periodic benefit cost	\$ 102,878	\$ 95,788

The amounts that have not yet been recognized as a component of net periodic benefit cost are as follows as of September 30:

	2014	2013
Deferred net loss on Plan assets	\$ 1,091,962	\$ 1,223,729
Deferred prior service costs	6,906	7,674
Net deferred cost	\$ 1,098,868	\$ 1,231,403

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic benefit cost for the years ended September 30, 2014 and 2013 are \$39,557 and \$38,372, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 7 - Defined Benefit Plan (Cont.)

The underlying rates used to determine the net periodic benefit cost were as follows:

	<u>2014</u>	<u>2013</u>
Weighted average discount rate	5.50%	5.50%
Rate of compensation increase	0.00%	0.00%
Expected long-term rate of return	5.50%	5.50%

The investment policy is conservative, intended to preserve principal. This is accomplished by investing in select account assets managed by Morgan Stanley Smith Barney. The primary allocation of Plan assets is in stocks. The management and diversification processes are the direct responsibility of the investment manager.

The IRS required interest rate factors for valuing benefit obligations result in currently higher benefit obligations, while relatively low (but increasing) plan yields inhibit the growth in the value of the Plan assets. However, the Organization has effectively determined that principal preservation is paramount at this time, even if that goal results in a temporarily larger mismatch between the growth of Plan benefit obligations in relation to the growth of the Plan assets. The Organization currently views the risk associated with other investments, such as equities, as too high as a significant loss in principal would be difficult to overcome in what are uncertain economic and equity market conditions.

The expected long-term rate of return on assets was determined by reference to the anticipated long-term returns on a conservative investment portfolio, determined with guidance from the professionals working with the Organization on the Plan matters.

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2014

Note 7 - Defined Benefit Plan (Cont.)

The Plan's weighted-average asset allocations at by asset category are as follows at September 30:

	2014	2013
Cash and equivalents	3%	4%
Equities	60%	66%
Fixed income	37%	30%
	100%	100%

The target is to maintain the following allocations:

	Minimum	Maximum	Preferred
Cash and equivalents	0%	100%	5%
Equities	25%	85%	70%
Fixed income	5%	65%	30%

Effective in December 2011 the Plan's investment policy has been amended to revise the objectives and guidance that the investment manager should use when determining the composition of the assets in the account. The new investment policy requires additional funds to be transferred from cash to equities for future appreciation. This policy change is effective as of fiscal year end September 30, 2013.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 7 - Defined Benefit Plan (Cont.)

The following tables summarize the Organization's pension plan assets, by level, within the fair value hierarchy, by asset category at:

	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Mutual funds				
Cash and money market funds	\$ 90,917	\$ -	\$ -	\$ 90,917
Corporate stocks				
Financial services	375,939	-	-	375,939
Communication services	221,333	-	-	221,333
Energy	215,989	-	-	215,989
Basic materials	210,387	-	-	210,387
Utilities	181,569	-	-	181,569
Healthcare	108,787	-	-	108,787
Real estate	97,872	-	-	97,872
Industrials	95,226	-	-	95,226
Consumer defensive	37,249	-	-	37,249
Technology	21,150	-	-	21,150
Preferred stocks: financial services	78,930	-	-	78,930
Exchange traded funds				
China region	111,815	-	-	111,815
Bonds				
Corporate bonds	1,103,670	-	-	1,103,670
Total assets	<u>\$ 2,950,833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,950,833</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 7 - Defined Benefit Plan (Cont.)

	September 30, 2013			Total
	Level 1	Level 2	Level 3	
Mutual funds				
Cash and money market funds	\$ 95,704	\$ -	\$ -	\$ 95,704
Corporate stocks				
Financial services	348,170	-	-	348,170
Energy	287,973	-	-	287,973
Utilities	221,114	-	-	221,114
Basic materials	173,284	-	-	173,284
Communication services	168,720	-	-	168,720
Industrials	113,134	-	-	113,134
Consumer cyclical	94,972	-	-	94,972
Technology	86,775	-	-	86,775
Healthcare	49,853	-	-	49,853
Preferred stocks: financial services	101,070	-	-	101,070
Exchange traded funds				
China region	110,165	-	-	110,165
Bonds				
Corporate bonds	811,462	-	-	811,462
 Total assets	 <u>\$ 2,662,396</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 2,662,396</u>

The estimated future benefit payments are as follows for future years ending September 30:

2015	\$ 215,958
2016	211,300
2017	212,467
2018	215,648
2019	225,277
2020-2024	<u>1,232,688</u>
	<u>\$ 2,313,338</u>

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2014

Note 8 - Retirement Plan

The Organization offers its staff the option to participate in a defined contribution retirement Plan pursuant to Section 401(k) of the Internal Revenue Code. The Organization has adopted this Plan as of January 1, 2010. Substantially all employees with at least 1,000 hours of service in any Plan year are eligible to participate and may contribute up to the maximum limitation imposed by the IRS. Beginning on January 1, 2012 the Organization has adopted a safe harbor matching contribution equal to a 100% match on the first 1% of employee deferrals and an additional 50% match on the next 5% of employee deferrals. Pension expense for the years ended September 30, 2014 and 2013 was \$66,078 and \$74,245, respectively and is included in employee benefits in the accompanying schedule of expenses.

Note 9 - Compensated Absences

Employees of the Organization are entitled to paid vacation, sick leave and personal days depending on job classification and length of service. Employees can carryover up to five vacation days at the end of the year. Paid sick leave can accrue up to 120 days although the Organization is not required to pay accumulated sick leave upon termination of employment. The liability for compensated absences at September 30, 2014 and 2013 was \$156,143 and \$161,103, respectively. The balance is included in accrued expenses on the statement of financial position.

Note 10 - Unrestricted, Board Designated Net Assets

The Organization has designated the proceeds from the sale of their office building and invested the funds into a Board designated investment account. Principal and earnings are designated for future endeavors that fall within the mission of the Organization at the discretion of the Board of Directors. The Board designated net assets at September 30, 2014 and 2013 totaled \$6,914,513 and \$6,230,912, respectively.

Note 11 - Temporarily Restricted Net Assets

A summary of temporarily restricted net assets is as follows at September 30:

	2014	2013
Pledges receivable	\$ 151,279	\$ -
Hames Remainder Trust	122,131	122,404
Amicus Brief Program	40,083	81,431
Total	\$ 313,493	\$ 203,835

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 12 - Charitable Gift Annuities Payable

The Organization has received cash donations under charitable gift annuity agreements. In consideration of the gifts, the Organization agrees to pay annuities to the donors, over the lives of the donors. Annuity payments and changes in the annuity payable for life expectancy changes of donors amounted to a decrease of \$97,755 and \$75,910 for the years ended September 30, 2014 and 2013, respectively.

Based on donor life expectancies and the use of discount rates ranging from 1.2% to 7.4%, the fair value of the charitable gift annuities is the present value of future obligations expected to be paid by the Organization and is estimated to be \$969,059, which is recorded as a current liability of \$167,359 and a long term liability of \$801,700 in the statement of financial position as of September 30, 2014. As of September 30, 2013 the present value of future obligations expected to be paid by the Organization was estimated to be \$858,980, which was recorded as a current liability of \$142,253 and a long term liability of \$716,727. Net contribution revenues recognized under these agreements were \$199,621 and \$57,272 for the years ended September 30, 2014 and 2013, respectively.

Note 13 - Allocation of Joint Costs

During the year ended September 30, 2014, the Organization incurred joint costs of \$947,255 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$530,752 was allocated to fundraising expense, \$286,108 was allocated to the educational and publication division, and \$130,395 was allocated to management and general. In the prior year ended September 30, 2013, the Organization incurred joint costs of \$760,794 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$251,062 was allocated to fundraising expense, \$410,829 was allocated to the educational and publication division, and \$98,903 was allocated to management and general.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2014

Note 14 - Charitable Remainder Trust

The Organization administers a charitable remainder Trust. A charitable remainder Trust provides for the payment of distributions to the grantor or other designated beneficiaries over the Trust's term (usually the designated beneficiary's lifetime). At the end of the Trust's term, the remaining assets are available for the Organization's use. The portion of the Trust attributable to the present value of the future benefits to be received is recorded in the statement of activities as a temporarily restricted contribution in the period the Trust is established. Such contributions totaled \$472,612 in the year ended September 30, 2007. Assets held in the charitable remainder Trusts totaled \$300,194 and \$308,711 at September 30, 2014 and 2013, respectively and are reported at fair market value in the statement of financial position as restricted cash and investments. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments totaled \$178,063 and \$186,307 at September 30, 2014 and 2013, respectively and is calculated using a discount rate of 6% and applicable mortality tables.

Note 15 - Commitment

On August 7, 2012, the Organization entered into a two-year agreement with Craver, Mathew, Smith & Company (CMS), whereby CMS agrees to develop, implement, and assume responsibility for a direct response, public education, and fundraising program for and on behalf of the Organization. CMS receives a monthly consulting fee of \$8,500 for the agreement period. For the years ended September 30, 2014 and 2013, the consulting fee incurred by the Organization amounted to \$102,000. On November 1, 2014 this agreement has been extended for another two-years with the same terms.

Note 16 - Operating Lease

The Organization is obligated under a lease agreement for its current office premises in Washington, D.C. The lease was signed during 2011 with a termination date of July 14, 2016. The agreement is for \$29,750 per month in base rent, which includes certain expenses related to the operation of the office and escalates at a rate of 4% each year on the anniversary of the agreement. In fiscal year 2014 the lessor executed an early termination clause effective February 28, 2015.

The Organization has a future minimum lease payments due for the year ended September 30, 2015 of \$168,662. Rent expense for the years ended September 30, 2014 and 2013 was \$384,896.

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2014

Note 17 - Capital Lease

The Organization leases equipment under agreements that have been accounted for as capital leases. The leases expire from May 2018 to April 2019. The capital lease obligations have been recorded in the financial statements at the present value of future minimum lease payments, discounted at an interest rate ranging from 3.897% to 5.5%. The capitalized cost of the leased equipment amounted to \$97,029, and \$86,641 as of September 30, 2014 and 2013. At September 30, 2014 and 2013, the book value of the equipment was \$73,475 and \$80,998, respectively. Amortization expense attributable to the equipment for the years ended September 30, 2014 and 2013 amounted to \$17,911 and \$5,643, and is included in depreciation expense.

The following is a schedule of the minimum lease payments due on the capital lease:

<u>Year Ending September 30:</u>	
2015	\$ 21,380
2016	21,380
2017	21,380
2018	15,161
2019	<u>2,269</u>
Total future minimum lease payments	81,570
Less amount representing interest	<u>(6,386)</u>
Present value of future minimum payments (including current portion of \$18,611)	<u><u>\$ 75,184</u></u>

Note 18 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. Except for the following, there have been no subsequent events through March 12, 2015, the date the Organization's financial statements were available to be issued, that require recognition or disclosure.

In January 2015, the Organization has entered into an agreement to lease new office space effective March 2015. The lease agreement has a term of 22 months and requires monthly payments of \$27,595.

SUPPLEMENTARY INFORMATION

Americans United for Separation of Church and State
DETAIL SCHEDULE OF EXPENSES
Year Ended September 30, 2014
With Summarized Financial Information for the Year Ended September 30, 2013

	Program Services				Supporting Services			Total		
	Educational and Publication Division	Field Services Division	Legal Division	Trustees and National Advisory Council Meetings	Total Program Services	Management and General	Fundraising	Total Supporting Services	2014	2013
Salaries	\$ 509,235	\$ 514,052	\$ 670,122	\$ -	\$ 1,693,409	\$ 425,231	\$ 253,828	\$ 679,059	\$ 2,372,468	\$ 2,415,276
Direct mail	286,108	-	-	-	286,108	130,395	530,752	661,147	947,255	760,794
Employee benefits and payroll taxes	149,925	171,875	179,879	-	501,679	137,930	84,377	222,307	723,986	688,430
Office rent	82,744	83,526	108,885	-	275,155	68,497	41,244	109,741	384,896	384,896
Consulting fees	51,445	9,535	26,606	-	87,586	7,887	190,134	198,021	285,607	251,322
Printing and production	136,460	262	3,574	-	140,296	-	-	-	140,296	151,328
Postage and delivery	109,369	3,821	2,812	-	116,002	1,668	14,562	16,230	132,232	131,091
Depreciation and amortization	52,367	15,095	19,678	-	87,140	12,487	7,454	19,941	107,081	100,267
Dues and subscriptions	2,760	44,892	27,906	-	75,558	6,906	17,622	24,528	100,086	84,326
Travel and entertainment	8,488	9,360	22,520	-	40,368	23,663	8,117	31,780	72,148	70,296
Telephone, internet and website	17,586	8,487	10,495	-	36,568	9,664	3,744	13,408	49,976	50,205
Professional fees	9,911	10,005	13,043	-	32,959	8,276	4,941	13,217	46,176	18,547
Special events	-	-	-	-	-	-	41,877	41,877	41,877	51,248
Trustees expenses	-	-	-	41,798	41,798	-	-	-	41,798	43,266
Meetings and conventions	-	19,009	-	-	19,009	21,129	1,272	22,401	41,410	36,440
Supplies	2,976	9,212	8,209	-	20,397	15,104	4,647	19,751	40,148	44,087
Bank fees	7,384	7,454	9,717	-	24,555	6,167	3,681	9,848	34,403	31,803
Accounting/audit	6,540	6,602	8,607	-	21,749	5,461	3,261	8,722	30,471	27,129
Other / special projects	8,000	1,538	2,573	-	12,111	1,050	17,288	18,338	30,449	24,878
Insurance	4,428	4,470	12,023	-	20,921	3,698	2,207	5,905	26,826	26,131
Data processing	-	-	-	-	-	-	21,417	21,417	21,417	26,146
Bad debt expense (pledges)	-	-	-	-	-	-	17,500	17,500	17,500	-
Minor equipment	2,688	2,712	3,537	-	8,937	4,124	1,340	5,464	14,401	38,458
Writers and news services	13,772	-	-	-	13,772	-	-	-	13,772	18,113
Payroll services	1,231	1,243	1,620	-	4,094	1,028	614	1,642	5,736	5,143
Interest expense	664	670	874	-	2,208	554	331	885	3,093	1,074
Utilities	-	-	-	-	-	597	-	597	597	1,948
Advertising	393	-	-	-	393	130	-	130	523	15,572
Grants	-	500	-	-	500	-	-	-	500	1,200
Total expenses	\$ 1,464,474	\$ 924,320	\$ 1,132,680	\$ 41,798	\$ 3,563,272	\$ 891,646	\$ 1,272,210	\$ 2,163,856	\$ 5,727,128	\$ 5,499,414