

**AMERICANS UNITED FOR SEPARATION
OF CHURCH AND STATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

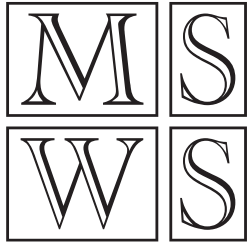


MULLEN SONDBERG WIMBISH & STONE, PA

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, 2013, 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 on 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, 2013, 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 25 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 2012 financial statements, and our report dated March 13, 2013 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, 2012, 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 13, 2014

Americans United for Separation of Church and State
STATEMENT OF FINANCIAL POSITION
September 30, 2013

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 489,636	\$ 402,124
Investments	8,494,787	7,892,855
Accounts receivable	29,549	350,971
Bequests receivable	157,137	125,412
Interest receivable	18,274	20,040
Inventory	2,729	5,199
Prepaid expenses	64,530	66,557
Deposits	146,140	130,516
Total current assets	9,402,782	8,993,674
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	215,955	218,320
OTHER ASSETS		
Cash and cash equivalents, remainder trust	6,899	7,049
Investments restricted for remainder trust	301,812	294,819
Total other assets	308,711	301,868
Total assets	\$ 9,927,448	\$ 9,513,862

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 71,887	\$ 128,352
Accrued expenses	357,461	316,073
Accrued pension	1,137,327	1,029,969
Deferred revenue	5,675	7,250
Deferred rent	11,532	-
Capital lease obligation	15,841	-
Charitable annuities payable	142,253	138,478
Total current liabilities	1,741,976	1,620,122
LONG-TERM LIABILITIES		
Deferred rent	58,907	66,724
Charitable annuities payable	716,727	721,452
Capital lease obligation	63,655	-
Remainder trust payable	186,307	185,211
Total long-term liabilities	1,025,596	973,387
Total liabilities	2,767,572	2,593,509
NET ASSETS		
Unrestricted	725,129	1,585,291
Unrestricted, board designated	6,230,912	5,218,405
Temporarily restricted	203,835	116,657
Total net assets	7,159,876	6,920,353
Total liabilities and net assets	\$ 9,927,448	\$ 9,513,862

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, 2013
With Summarized Financial Information for the Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	2013	2012
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 3,253,409	\$ 81,431	\$ 3,334,840	\$ 3,392,068
Realized and unrealized gain on investments	1,155,801	-	1,155,801	704,175
Bequests	610,851	-	610,851	747,573
Trust and foundation grants	355,734	-	355,734	358,058
Investment income, net of expenses	299,775	-	299,775	294,268
Gift annuity income	57,272	-	57,272	83,481
Special events	41,698	-	41,698	94,615
Other revenue	35,636	-	35,636	35,551
Legal settlement	12,500	-	12,500	939,341
Contributions - Chapters	6,820	-	6,820	4,685
Sales	3,298	-	3,298	3,150
Local churches	2,233	-	2,233	3,327
Change in value of split interest agreements	(75,910)	5,747	(70,163)	(79,949)
Total revenues, gains, and other support	<u>5,759,117</u>	<u>87,178</u>	<u>5,846,295</u>	<u>6,580,343</u>
EXPENSES				
Program services				
Educational and publication division	1,682,489	-	1,682,489	1,804,113
Field services division	839,628	-	839,628	883,095
Legal division	1,157,221	-	1,157,221	1,117,040
Trustees and national advisory council meetings	43,266	-	43,266	46,309
Total program services	<u>3,722,604</u>	<u>-</u>	<u>3,722,604</u>	<u>3,850,557</u>
Supporting services				
Management and general	879,265	-	879,265	910,516
Fundraising	897,545	-	897,545	1,013,894
Total supporting services	<u>1,776,810</u>	<u>-</u>	<u>1,776,810</u>	<u>1,924,410</u>
Total expenses	<u>5,499,414</u>	<u>-</u>	<u>5,499,414</u>	<u>5,774,967</u>
Change in net assets before other items	259,703	87,178	346,881	805,376
OTHER ITEMS				
Minimum pension liability adjustment	(107,358)	-	(107,358)	(9,506)
Change in net assets	152,345	87,178	239,523	795,870
NET ASSETS AT BEGINNING OF YEAR	<u>6,803,696</u>	<u>116,657</u>	<u>6,920,353</u>	<u>6,124,483</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,956,041</u>	<u>\$ 203,835</u>	<u>\$ 7,159,876</u>	<u>\$ 6,920,353</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, 2013

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 239,523	\$ 795,870
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	100,267	91,504
Realized and unrealized gain on investments	(1,155,801)	(704,175)
Change in value of split interest agreements	70,163	79,949
Donated securities	(32,458)	(50,532)
(Increase) decrease in operating assets:		
Accounts receivable	321,422	(348,365)
Bequests receivable	(31,725)	(51,835)
Interest receivable	1,766	(8,066)
Inventory	2,470	(799)
Prepaid expenses	2,027	(13,875)
Deposits	(15,624)	(3,936)
Increase (decrease) in operating liabilities:		
Accounts payable	(56,465)	(17,482)
Accrued expenses	41,388	88,727
Accrued pension	107,358	9,506
Deferred revenue	(1,575)	7,250
Deferred rent	3,715	18,377
Net cash used by operating activities	<u>(403,549)</u>	<u>(107,882)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including income reinvested	(8,658,071)	(8,446,581)
Proceeds from sales of investments	9,237,405	8,124,506
Purchase of equipment	<u>(13,261)</u>	<u>(59,495)</u>
Net cash provided (used) by investing activities	<u>566,073</u>	<u>(381,570)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in cash restricted by remainder trust	150	(684)
Increase in annuities payable from new gifts	62,728	97,755
Investment income on annuity funds	21,361	21,897
Principal payments on capital lease obligation	(5,145)	-
Payments on annuities payable	<u>(154,106)</u>	<u>(148,694)</u>
Net cash used by financing activities	<u>(75,012)</u>	<u>(29,726)</u>
Net change in cash and cash equivalents	87,512	(519,178)
Cash and cash equivalents at beginning of year	<u>402,124</u>	<u>921,302</u>
Cash and cash equivalents at end of year	<u>\$ 489,636</u>	<u>\$ 402,124</u>
SUPPLEMENTARY DISCLOSURES:		
Cash paid during the year for interest	<u>\$ 1,074</u>	<u>\$ -</u>
Noncash investing and financing activities		
Purchase of equipment	\$ 97,902	\$ 59,495
Less amount financed	<u>(84,641)</u>	<u>-</u>
Cash paid to acquire property and equipment	<u>\$ 13,261</u>	<u>\$ 59,495</u>

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, 2013

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, 2012, 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, 2013

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, 2010 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, 2013

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.

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 \$15,572 and \$1,298 for the years ended September 30, 2013 and 2012, respectively.

Note 2 - Concentration of Cash Balances

At September 30, 2013 and 2012 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 non-interest-bearing transaction accounts from December 31, 2010 through December 31, 2012 were fully insured under the provisions of Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which provides unlimited deposit insurance coverage for non-interest-bearing transaction accounts. Amounts held in excess of FDIC insurance coverage as of September 30, 2013 and 2012 were \$-0- and \$71,871, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

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:

	2013		Cumulative Unrealized Gain (Loss)
	Cost	Market	
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	427,000	301,812	(125,188)
	<u>\$ 8,386,100</u>	<u>\$ 8,796,599</u>	<u>\$ 410,499</u>
	2012		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Cash and money market funds	\$ 9,301	\$ 9,301	\$ -
Corporate stocks	4,865,433	4,924,726	59,293
Fixed rate capital securities	436,909	452,729	15,820
Mortgage backed assets	166	166	-
Exchange traded funds	372,196	406,406	34,210
Mutual funds	380	380	-
Bonds	2,060,910	2,099,147	38,237
	7,745,295	7,892,855	147,560
Restricted investments - annuities	427,000	294,819	(132,181)
	<u>\$ 8,172,295</u>	<u>\$ 8,187,674</u>	<u>\$ 15,379</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 3 - Investments (Cont.)

Realized and unrealized gain on the value of investments for the years ended September 30, 2013 and 2012 amounted to \$1,155,801 and \$704,175, respectively.

Investment income is reported net of related expenses of \$299,775 and \$294,268 for the years ended September 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013

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 charitable gift annuities payable and remainder trusts. 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, 2013

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:

<u>September 30, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 8,494,657</u>	<u>\$ 301,942</u>	<u>\$ -</u>	<u>\$ 8,796,599</u>
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 858,980	\$ 858,980
Remainder trust payable	-	-	186,307	186,307
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,045,287</u>	<u>\$ 1,045,287</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 4 - Fair Value Measurement (Cont.)

September 30, 2012	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and money market funds	\$ 9,301	\$ -	\$ -	\$ 9,301
Corporate stocks				
Financial services	1,138,602	-	-	1,138,602
Industrials	855,434	-	-	855,434
Energy	708,210	-	-	708,210
Healthcare	440,755	-	-	440,755
Communication services	436,189	-	-	436,189
Basic materials	420,546	-	-	420,546
Consumer cyclical	296,081	-	-	296,081
Technology	288,410	-	-	288,410
Utilities	240,508	-	-	240,508
Consumer defensive	99,992	-	-	99,992
Fixed-rate capital securities	452,729	-	-	452,729
Mortgage backed assets	-	166	-	166
Exchange traded funds				
China region	406,406	-	-	406,406
Mutual funds				
Balanced funds	380	-	-	380
Bonds				
U. S. government bonds	667	-	-	667
Corporate bonds	2,098,479	-	-	2,098,479
Restricted annuities	-	294,819	-	294,819
Total assets	\$ 7,892,689	\$ 294,985	\$ -	\$ 8,187,674
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 859,930	\$ 859,930
Remainder trust payable	-	-	185,211	185,211
Total liabilities	\$ -	\$ -	\$ 1,045,141	\$ 1,045,141

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

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, 2013 and 2012 using Level 3 inputs is as follows:

	Charitable Annuities Payable	Remainder Trust Payable	Total
Balance as of September 30, 2011	\$ 810,345	\$ 183,889	\$ 994,234
Investment gain	-	21,897	21,897
Contributions	97,755	-	97,755
Payments to annuitants	(133,637)	(15,057)	(148,694)
Actuarial adjustment	85,467	(5,518)	79,949
	<u>\$ 859,930</u>	<u>\$ 185,211</u>	<u>\$ 1,045,141</u>
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
	<u>\$ 858,980</u>	<u>\$ 186,307</u>	<u>\$ 1,045,287</u>
Balance as of September 30, 2013	<u>\$ 858,980</u>	<u>\$ 186,307</u>	<u>\$ 1,045,287</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 5 - Property and Equipment

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

	<u>Estimated Lives</u>	<u>2013</u>	<u>2012</u>
Land	--	\$ 2,400	\$ 2,400
Mineral rights	--	2,970	2,970
Leasehold improvements	7 years	88,079	84,086
Furniture and equipment	5-7 years	614,465	520,556
Vehicles	5 years	28,567	28,567
Website development	3-5 years	117,190	117,190
		<u>853,671</u>	<u>755,769</u>
Less accumulated depreciation		(637,716)	(537,449)
Net property and equipment		<u>\$ 215,955</u>	<u>\$ 218,320</u>

Depreciation and amortization expense for the years ended September 30, 2013 and 2012 amounted to \$100,267 and \$91,504, respectively.

Note 6 - 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, 2013 and 2012 were \$113,000 and \$50,000, respectively. The Organization expects to contribute \$189,779 to the Plan during the year ended September 30, 2014. No plan assets are expected to be returned to the Organization during the year ended September 30, 2014.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 6 - Defined Benefit Plan (Cont.)

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

	2013	2012
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 3,390,167	\$ 3,233,053
Interest cost	185,390	177,371
Actuarial loss/(gain)	289,014	1,661
Benefits paid	(64,848)	(21,918)
Projected benefit obligation, end of year	3,799,723	3,390,167
Change in plan assets		
Fair value of plan assets, beginning of year	2,360,198	2,212,590
Actual return on plan assets	254,046	119,526
Employer contributions	113,000	50,000
Benefits paid	(64,848)	(21,918)
Fair value of plan assets, end of year	2,662,396	2,360,198
 Funded status	 \$ (1,137,327)	 \$ (1,029,969)

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

	2013	2012
Interest cost	\$ 185,390	\$ 177,371
Expected return on plan assets	(128,742)	(121,245)
Net amortization/deferral		
Amortization of prior service cost	768	768
Amortization of net loss	38,372	45,050
 Net periodic benefit cost	 \$ 95,788	 \$ 101,944

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 6 - Defined Benefit Plan (Cont.)

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

	2013	2012
Deferred net loss on plan assets	\$ 1,223,729	\$ 1,098,391
Deferred prior service costs	7,674	8,442
Net deferred cost	\$ 1,231,403	\$ 1,106,833

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, 2013 and 2012 are \$38,372 and \$45,050, respectively.

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

	2013	2012
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, 2013

Note 6 - Defined Benefit Plan (Cont.)

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

	2013	2012
Cash and equivalents	4%	66%
Equities	66%	20%
Fixed income	30%	14%
	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, 2013

Note 6 - 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, 2013			
	Level 1	Level 2	Level 3	Total
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>

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market funds	\$ 1,559,884	\$ -	\$ -	\$ 1,559,884
Fixed income funds	325,476	-	-	325,476
Large capitalized domestic equity funds	268,986	-	-	268,986
Small/mid capitalized domestic equity funds	163,481	-	-	163,481
International equity funds	42,371	-	-	42,371
 Total assets	 <u>\$ 2,360,198</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 2,360,198</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 6 - Defined Benefit Plan (Cont.)

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

2014	\$	193,583
2015		189,739
2016		185,645
2017		187,402
2018		206,924
2019-2023		<u>1,161,348</u>
	\$	<u>2,124,641</u>

Note 7 - 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, 2013 and 2012 was \$74,245 and \$67,939, respectively and is included in employee benefits in the accompanying schedule of expenses.

Note 8 - 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, 2013 and 2012 was \$161,103 and \$139,283, respectively. The balance is included in accrued expenses on the statement of financial position.

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2013

Note 9 - 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, 2013 and 2012 totaled \$6,230,912 and \$5,218,405, respectively.

Note 10 - Temporarily Restricted Net Assets

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

	2013	2012
Hames Remainder Trust	\$ 122,404	\$ 116,657
Amicus Brief Program	81,431	-
Total	\$ 203,835	\$ 116,657

Note 11 - 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 \$75,910 and \$85,467 for the years ended September 30, 2013 and 2012, 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 \$858,980, which is recorded as a current liability of \$142,253 and a long term liability of \$716,727 in the statement of financial position as of September 30, 2013. As of September 30, 2012 the present value of future obligations expected to be paid by the Organization was estimated to be \$859,930, which was recorded as a current liability of \$138,478 and a long term liability of \$721,452. Net contribution revenues recognized under these agreements were \$57,272 and \$83,481 for the years ended September 30, 2013 and 2012, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 12 - Allocation of Joint Costs

During the year ended September 30, 2013, the Organization incurred joint costs of \$808,144 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$263,808 was allocated to fundraising expense, \$434,080 was allocated to the educational and publication division, and \$110,256 was allocated to management and general. In the prior year ended September 30, 2012, the Organization incurred joint costs of \$891,138 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$344,738 was allocated to fundraising expense, \$429,263 was allocated to the educational and publication division, and \$117,137 was allocated to management and general.

Note 13 - 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 \$308,711 and \$301,868 at September 30, 2013 and 2012, 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 \$186,307 and \$185,211 at September 30, 2013 and 2012, respectively and is calculated using a discount rate of 6% and applicable mortality tables.

Note 14 - 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, 2013 and 2012, the consulting fee incurred by the Organization amounted to \$102,000.

Note 15 - 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 and terminates on 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.

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2013

Note 15 - Operating Lease (Cont.)

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

<u>Year Ending September 30:</u>	
2014	\$ 396,428
2015	412,285
2016	<u>336,537</u>
	<u><u>\$ 1,145,250</u></u>

Rent expense for the years ended September 30, 2013 and 2012 was \$384,896.

Note 16 - Capital Lease

The Organization leases equipment under an agreement that has been accounted for as a capital lease. The lease expires in May 2018. The capital lease obligation has been recorded in the financial statements at the present value of future minimum lease payments, discounted at an interest rate of 3.897%. The capitalized cost of the leased equipment amounts to \$84,641 as of September 30, 2013. At September 30, 2013, the book value of the equipment was \$78,998. Amortization expense attributable to the equipment for the year ended September 30, 2013 amounted to \$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>	
2014	\$ 18,658
2015	18,658
2016	18,658
2017	18,658
2018	<u>12,439</u>
Total future minimum lease payments	87,071
Less amount representing interest	<u>(7,575)</u>
Present value of future minimum payments (including current portion of \$15,841)	<u><u>\$ 79,496</u></u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2013

Note 17 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through March 13, 2014, the date the Organization's financial statements were available to be issued, that require recognition or disclosure.

SUPPLEMENTARY INFORMATION

Americans United for Separation of Church and State
 DETAIL SCHEDULE OF EXPENSES
 Year Ended September 30, 2013
 With Summarized Financial Information for the Year Ended September 30, 2012

	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	2013	2012
Salaries	\$ 562,100	\$ 470,683	\$ 697,928	\$ -	\$ 1,730,711	\$ 434,358	\$ 250,207	\$ 684,565	\$ 2,415,276	\$ 2,459,874
Direct mail	434,080	-	-	-	434,080	110,256	263,808	374,064	808,144	891,138
Employee benefits	144,778	150,222	173,441	-	468,441	133,220	86,769	219,989	688,430	623,245
Office rent	90,029	75,387	111,785	-	277,201	67,620	40,075	107,695	384,896	384,896
Consulting fees	54,228	7,978	23,719	-	85,925	7,363	110,684	118,047	203,972	233,520
Printing and production	140,562	968	9,153	-	150,683	-	645	645	151,328	144,062
Postage and delivery	109,787	4,147	3,431	-	117,365	1,555	12,171	13,726	131,091	119,767
Depreciation and amortization	52,420	11,185	16,585	-	80,190	14,132	5,945	20,077	100,267	91,504
Dues and subscriptions	2,543	42,831	27,165	-	72,539	3,271	8,516	11,787	84,326	81,141
Travel and entertainment	5,685	9,579	24,831	-	40,095	22,149	8,052	30,201	70,296	76,061
Special events	-	-	-	-	-	-	51,248	51,248	51,248	96,208
Telephone, internet and website	18,121	8,056	10,293	-	36,470	10,202	3,533	13,735	50,205	70,655
Supplies	4,242	9,581	10,310	-	24,133	15,291	4,663	19,954	44,087	38,725
Trustees expenses	-	-	-	43,266	43,266	-	-	-	43,266	46,309
Meetings and conventions	42	16,079	64	-	16,185	22,013	260	22,273	38,458	47,196
Minor equipment	8,089	6,773	10,043	-	24,905	7,934	3,601	11,535	36,440	45,379
Bank fees	7,401	6,198	9,190	-	22,789	5,719	3,295	9,014	31,803	35,067
Accounting/audit	6,314	5,287	7,839	-	19,440	4,879	2,810	7,689	27,129	26,385
Data processing	-	-	-	-	-	-	26,146	26,146	26,146	26,579
Insurance	4,640	3,885	11,956	-	20,481	3,585	2,065	5,650	26,131	23,577
Other / special projects	-	4,763	2,332	-	7,095	7,296	10,487	17,783	24,878	59,043
Professional fees	4,316	3,615	5,360	-	13,291	3,335	1,921	5,256	18,547	55,841
Writers and news services	18,113	-	-	-	18,113	-	-	-	18,113	70,779
Advertising	13,552	-	-	-	13,552	2,020	-	2,020	15,572	1,298
Payroll services	1,197	1,002	1,486	-	3,685	925	533	1,458	5,143	17,706
Utilities	-	-	-	-	-	1,948	-	1,948	1,948	692
Grants	-	1,200	-	-	1,200	-	-	-	1,200	2,600
Interest expense	250	209	310	-	769	194	111	305	1,074	-
Interns	-	-	-	-	-	-	-	-	-	5,720
Total expenses	\$ 1,682,489	\$ 839,628	\$ 1,157,221	\$ 43,266	\$ 3,722,604	\$ 879,265	\$ 897,545	\$ 1,776,810	\$ 5,499,414	\$ 5,774,967