

**AMERICANS UNITED FOR SEPARATION
OF CHURCH AND STATE
FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

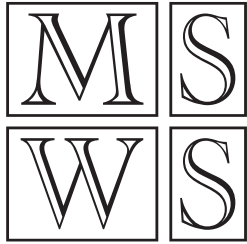


MULLEN SONDBERG WIMBISH & STONE, PA

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 Trustees 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 nonprofit Organization), which comprise the statement of financial position as of September 30, 2018, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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

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

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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 27 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 stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Americans United for Separation of Church and State's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, 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 27, 2019

Americans United for Separation of Church and State
STATEMENT OF FINANCIAL POSITION
September 30, 2018
ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 594,072	\$ 696,861
Investments	10,195,286	10,023,670
Bequests receivable	375,177	259,298
Interest receivable	40,834	43,229
Other receivables	571	252
Inventory	513	3,693
Prepaid expenses	77,036	84,260
Deposits	11,280	46,124
Total current assets	11,294,769	11,157,387
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	875,028	988,538
OTHER ASSETS		
Cash and cash equivalents - restricted for remainder trust	7,290	7,279
Investments - restricted for remainder trust	247,147	254,814
Deposits	85,505	85,505
Finance lease right of use assets, net of accumulated amortization	45,989	61,556
Operating lease right of use asset	4,544,843	4,841,786
Total other assets	4,930,774	5,250,940
Total assets	\$ 17,100,571	\$ 17,396,865
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 149,918	\$ 109,799
Accrued expenses	314,519	381,837
Accrued pension	1,004,462	1,005,129
Deferred revenue	-	169,840
Deferred rent	79,839	79,082
Finance lease obligations	15,234	15,060
Charitable annuities payable	129,400	150,657
Operating lease liability	535,685	479,877
Total current liabilities	2,229,057	2,391,281
LONG-TERM LIABILITIES		
Deferred rent	1,119,206	1,129,688
Finance lease obligations	32,380	47,614
Charitable annuities payable	507,001	594,859
Remainder trust payable	139,694	146,897
Operating lease liability	4,009,158	4,361,909
Total long-term liabilities	5,807,439	6,280,967
Total liabilities	8,036,496	8,672,248
NET ASSETS		
Unrestricted	1,281,697	966,163
Unrestricted, Board designated	7,667,634	7,643,258
Temporarily restricted	114,744	115,196
Total net assets	9,064,075	8,724,617
Total liabilities and net assets	\$ 17,100,571	\$ 17,396,865

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, 2018
With Summarized Financial Information for the Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	2018	2017
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 4,493,205	\$ -	\$ 4,493,205	\$ 4,533,222
Bequests	2,034,644	-	2,034,644	1,027,104
Trust and foundation grants	515,244	-	515,244	515,429
Investment income, net of expenses	402,308	-	402,308	424,157
Special events	220,448	-	220,448	36,717
Gift annuity income	103,736	-	103,736	6,520
Change in value of split interest agreements	65,044	(452)	64,592	(43,436)
Contributions - chapters	32,895	-	32,895	8,870
Other revenue	16,846	-	16,846	15,768
Donated services	10,320	-	10,320	15,000
Contributions - local churches	2,015	-	2,015	580
Sales of literature	1,750	-	1,750	3,054
Legal settlement	-	-	-	54,959
Loss on disposal of property and equipment	-	-	-	(61,717)
Realized and unrealized gain (loss) on investments	(395,401)	-	(395,401)	710,166
Total revenues, gains, and other support	7,503,054	(452)	7,502,602	7,246,393
EXPENSES				
Program services				
Educational and publication division	1,973,375	-	1,973,375	1,788,586
Field services division	1,269,315	-	1,269,315	1,371,091
Legal division	1,578,783	-	1,578,783	1,591,589
Trustees and national advisory council meetings	84,719	-	84,719	65,688
Total program services	4,906,192	-	4,906,192	4,816,954
Supporting services				
Management and general	848,785	-	848,785	1,022,398
Fundraising	1,408,834	-	1,408,834	1,337,352
Total supporting services	2,257,619	-	2,257,619	2,359,750
Total expenses	7,163,811	-	7,163,811	7,176,704
Change in net assets before other items	339,243	(452)	338,791	69,689
OTHER ITEMS				
Minimum pension liability adjustment	667	-	667	247,094
Change in net assets	339,910	(452)	339,458	316,783
NET ASSETS AT BEGINNING OF YEAR	8,609,421	115,196	8,724,617	8,407,834
NET ASSETS AT END OF YEAR	\$ 8,949,331	\$ 114,744	\$ 9,064,075	\$ 8,724,617

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, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 339,458	\$ 316,783
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	153,531	139,827
Realized and unrealized (gain) loss on investments	395,401	(710,166)
Change in value of split interest agreements	(64,592)	43,436
Loss on disposal of property and equipment	-	61,717
Change in present value discount and allowance on pledges	-	(7,500)
Donated securities	(107,400)	(145,883)
(Increase) decrease in operating assets:		
Bequests receivable	(115,879)	192,625
Interest receivable	2,395	(18,750)
Other receivables	(319)	125,124
Inventory	3,180	3,990
Prepaid expenses	7,224	(12,660)
Deposits	34,844	(7,867)
Increase (decrease) in operating liabilities:		
Accounts payable	40,119	14,424
Accrued expenses	(67,318)	86,842
Accrued pension	(667)	(247,094)
Deferred revenue	(169,840)	169,440
Deferred rent	(9,725)	301,432
Net cash provided by operating activities	440,412	305,720
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including income reinvested	(6,301,922)	(7,359,056)
Proceeds from sales of investments	5,849,972	7,482,665
Purchase of property and equipment	(24,454)	(23,666)
Net cash provided by (used in) investing activities	(476,404)	99,943
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections of contributions restricted for long-term purposes	-	75,000
Change in cash restricted by remainder trust	(11)	(2)
Increase in annuities payable from new gifts	96,265	3,480
Investment income on annuity funds	5,205	13,848
Principal payments on finance lease obligations	(15,060)	(40,548)
Payments on annuities payable	(153,196)	(171,300)
Net cash used in financing activities	(66,797)	(119,522)
Net change in cash and cash equivalents	(102,789)	286,141
Cash and cash equivalents at beginning of year	696,861	410,720
Cash and cash equivalents at end of year	\$ 594,072	\$ 696,861
SUPPLEMENTARY DISCLOSURES:		
Noncash investing and financing activities		
Purchase of property and equipment	\$ 24,454	\$ 946,425
Less tenant improvement allowance	-	(856,725)
Less amount financed	-	(66,034)
Net cash paid for property and equipment	\$ 24,454	\$ 23,666
Right of use asset obtained in exchange for operating lease liability	\$ -	\$ 4,841,786
Cash paid during the year for interest	\$ 2,186	\$ 2,281

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, 2018

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, 2017, 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. Funds received prior to satisfying a condition are reported as deferred revenue in the statement of financial position.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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

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.

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, 2015 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.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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

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.

Other Receivables

Other receivables 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 \$7,522 and \$4,967 for the years ended September 30, 2018 and 2017, respectively.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognized the fair value of donated legal services as revenue and expense in the amount of \$10,320 and \$15,000 for the years ended September 30, 2018 and 2017, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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

Leases

The Organization recognizes a right of use (ROU) asset and lease liability on the statement of finance position for all leases with a term longer than 12 months. Leases are classified as financing or operating. Finance leases are expensed through interest and amortization expense and operating leases are expensed through lease expense on the statement of activities.

Reclassification of Prior Year Balances

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

Note 2 - Concentration of Cash Balances

At September 30, 2018 and 2017, 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, 2018 and 2017 were approximately \$201,000 and \$242,000, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 3 - Investments

Investments are presented in the financial statements at fair 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:

	2018		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Corporate stocks	\$ 6,661,878	\$ 6,409,842	\$ (252,036)
Bonds	2,629,257	2,501,807	(127,450)
Preferred stocks	780,592	764,965	(15,627)
Exchange traded funds	404,306	518,586	114,280
Mortgage backed assets	18	86	68
	10,476,051	10,195,286	(280,765)
Restricted investments - annuities	286,281	247,147	(39,134)
	\$ 10,762,332	\$ 10,442,433	\$ (319,899)
	2017		
	Cost	Market	Cumulative Unrealized Gain (Loss)
Corporate stocks	\$ 6,277,607	\$ 6,270,158	\$ (7,449)
Bonds	2,347,198	2,245,848	(101,350)
Preferred stocks	917,695	968,981	51,286
Exchange traded funds	394,491	536,514	142,023
Mutual funds	1,104	2,026	922
Mortgage backed assets	23	143	120
	9,938,118	10,023,670	85,552
Restricted investments - annuities	299,141	254,814	(44,327)
	\$ 10,237,259	\$ 10,278,484	\$ 41,225

Realized and unrealized gain (loss) on the value of investments for the years ended September 30, 2018 and 2017 amounted to \$(395,401) and \$710,166, respectively.

Investment income is reported net of related expenses of \$105,276 and \$102,047 for the years ended September 30, 2018 and 2017, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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 supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, 2018 and 2017, investments were classified by the level of input as stipulated by the fair value hierarchy using the market value approach.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, include corporate stocks, preferred stocks, exchange traded funds, mutual funds, and bonds.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 4 - Fair Value Measurement (Cont.)

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, and unit investment trust 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 non-transferability, 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, 2018

Note 4 - Fair Value Measurement (Cont.)

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

September 30, 2018	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Corporate stocks	\$ 6,409,842	\$ -	\$ -	\$ 6,409,842
Bonds	2,501,807	-	-	2,501,807
Perferred stocks	764,965	-	-	764,965
Exchange traded funds	518,586	-	-	518,586
Mortgage backed assets	-	86	-	86
Restricted annuities	-	247,147	-	247,147
Total investments	<u>\$ 10,195,200</u>	<u>\$ 247,233</u>	<u>\$ -</u>	<u>\$ 10,442,433</u>
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 636,401	\$ 636,401
Remainder trust payable	-	-	139,694	139,694
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 776,095</u>	<u>\$ 776,095</u>
September 30, 2017	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Corporate stocks	\$ 6,270,158	\$ -	\$ -	\$ 6,270,158
Bonds	2,245,848	-	-	2,245,848
Perferred stocks	968,981	-	-	968,981
Exchange traded funds	536,514	-	-	536,514
Mutual funds	2,026	-	-	2,026
Mortgage backed assets	-	143	-	143
Restricted annuities	-	254,814	-	254,814
Total investments	<u>10,023,527</u>	<u>254,957</u>	<u>-</u>	<u>10,278,484</u>
Liabilities				
Charitable annuities payable	\$ -	\$ -	\$ 745,516	\$ 745,516
Remainder trust payable	-	-	146,897	146,897
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 892,413</u>	<u>\$ 892,413</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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, 2018 and 2017 using Level 3 inputs is as follows:

	Assets	Liabilities	
	Pledges Receivable	Charitable Annuities Payable	Remainder Trust Payable
Balance as of September 30, 2016	\$ 67,500	\$ 853,741	\$ 149,208
Investment gain	-	-	13,848
Contributions	-	3,480	-
Collections	(75,000)	-	-
Change in allowance for doubtful accounts	7,500	-	-
Payments to annuitants	-	(158,530)	(12,770)
Actuarial adjustment	-	46,825	(3,389)
Balance as of September 30, 2017	<u>\$ -</u>	<u>\$ 745,516</u>	<u>\$ 146,897</u>
Balance as of September 30, 2017	\$ -	\$ 745,516	\$ 146,897
Investment loss	-	-	5,205
Contributions	-	96,265	-
Payments to annuitants	-	(140,336)	(12,860)
Actuarial adjustment	-	(65,044)	452
Balance as of September 30, 2018	<u>\$ -</u>	<u>\$ 636,401</u>	<u>\$ 139,694</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 5 - Property and Equipment

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

	<u>Estimated Lives</u>	<u>2018</u>	<u>2017</u>
Land	--	\$ 2,400	\$ 2,400
Mineral rights	--	2,970	2,970
Leasehold improvements	10 years	889,713	889,713
Furniture and equipment	5-7 years	389,822	539,089
Vehicles	5 years	-	28,567
Website development	3-5 years	35,000	152,190
		1,319,905	1,614,929
Less accumulated depreciation		<u>(444,877)</u>	<u>(626,391)</u>
Net property and equipment		<u>\$ 875,028</u>	<u>\$ 988,538</u>

Depreciation and amortization expense for the years ended September 30, 2018 and 2017 amounted to \$153,531 and \$139,827, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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, 2018 and 2017 were \$260,000 and \$160,000, respectively. The Organization expects to contribute \$250,000 to the Plan during the year ended September 30, 2019. No Plan assets are expected to be returned to the Organization during the year ended September 30, 2019.

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

	<u>2018</u>	<u>2017</u>
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 4,277,445	\$ 4,178,233
Interest cost	229,896	225,480
Actuarial loss	48,597	30,934
Benefits paid	(249,684)	(157,202)
Projected benefit obligation, end of year	<u>4,306,254</u>	<u>4,277,445</u>
Change in Plan assets		
Fair value of Plan assets, beginning of year	3,272,316	2,926,010
Actual return on Plan assets	19,160	343,508
Employer contributions	260,000	160,000
Benefits paid	(249,684)	(157,202)
Fair value of Plan assets, end of year	<u>3,301,792</u>	<u>3,272,316</u>
Funded status	<u>\$ (1,004,462)</u>	<u>\$ (1,005,129)</u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 6 - Defined Benefit Plan (Cont.)

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

	2018	2017
Interest cost	\$ 229,896	\$ 225,480
Expected return on Plan assets	(174,614)	(156,607)
Net amortization/deferral		
Amortization of prior service cost	768	768
Amortization of net loss	41,142	49,481
Net periodic benefit cost	\$ 97,192	\$ 119,122

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

	2018	2017
Deferred net loss on Plan assets	\$ 1,457,921	\$ 1,295,012
Deferred prior service costs	3,834	4,602
Net deferred cost	\$ 1,461,755	\$ 1,299,614

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, 2018 and 2017 were \$41,142 and \$49,481, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 6 - Defined Benefit Plan (Cont.)

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

	<u>2018</u>	<u>2017</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 Raymond James. 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, 2018

Note 6 - Defined Benefit Plan (Cont.)

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

	2018	2017
Cash and equivalents	3%	5%
Equities	75%	75%
Fixed income	22%	20%
	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%

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

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, 2018			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 96,003	\$ -	\$ -	\$ 96,003
Corporate stocks	2,071,037	-	-	2,071,037
Preferred stocks	248,822	-	-	248,822
Exchange traded funds	166,006	-	-	166,006
Corporate bonds	719,924	-	-	719,924
 Total assets	 \$ 3,301,792	 \$ -	 \$ -	 \$ 3,301,792

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 149,584	\$ -	\$ -	\$ 149,584
Corporate stocks	1,888,701	-	-	1,888,701
Preferred stocks	399,237	-	-	399,237
Exchange traded funds	171,349	-	-	171,349
Corporate bonds	663,445	-	-	663,445
 Total assets	 \$ 3,272,316	 \$ -	 \$ -	 \$ 3,272,316

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 6 - Defined Benefit Plan (Cont.)

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

2019	\$ 250,344
2020	261,697
2021	274,285
2022	271,775
2023	292,832
2024-2028	<u>1,487,619</u>
	<u>\$ 2,838,552</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 related to the defined contribution plan for the years ended September 30, 2018 and 2017 was \$82,857 and \$82,355, respectively and is included in employee benefits in the accompanying detail 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, 2018 and 2017 was \$177,208 and \$166,951, 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, 2018

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, 2018 and 2017 totaled \$7,667,634 and \$7,643,258, respectively.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets include the following at September 30:

	2018	2017
Hames Remainder Trust	\$ 114,744	\$ 115,196

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 (increase) decrease of \$(65,044) and \$46,825 for the years ended September 30, 2018 and 2017, 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 \$636,401, which is recorded as a current liability of \$129,400 and a long term liability of \$507,001 in the statement of financial position as of September 30, 2018. As of September 30, 2017, the present value of future obligations expected to be paid by the Organization was estimated to be \$745,516, which was recorded as a current liability of \$150,657 and a long term liability of \$594,859. Net contribution revenues recognized under these agreements were \$103,736 and \$6,520 for the years ended September 30, 2018 and 2017, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 12 - Allocation of Joint Costs

During the year ended September 30, 2018, the Organization incurred joint costs of \$925,311 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, 477,758 was allocated to fundraising expense, \$363,362 was allocated to the educational and publication division, and \$84,191 was allocated to management and general. In the prior year ended September 30, 2017, the Organization incurred joint costs of \$1,011,289 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$591,615 was allocated to fundraising expense, \$340,233 was allocated to the educational and publication division, and \$79,441 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 Trust totaled \$254,437 and \$262,093 at September 30, 2018 and 2017, 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 \$139,694 and \$146,897 at September 30, 2018 and 2017, respectively and is calculated using a discount rate of 6% and applicable mortality tables.

Note 14 - Commitments

In August 2016, the Organization entered into a two-year agreement starting November 1, 2016 with Thrive, whereby Thrive agrees to develop, implement, and assume responsibility for a direct response, public education, and fundraising program for and on behalf of the Organization. Thrive receives a monthly consulting fee of \$9,500 for the agreement period. For the years ended September 30, 2018 and 2017, the consulting fee incurred by the Organization amounted to \$114,000 and \$109,200, respectively.

The Organization was obligated under a lease agreement for its former office premises in Washington, D.C. The lease was signed in January 2015 with a term of 22 months and expired in December 2016. The lease monthly payments were \$27,595 with an annual increase of 4.5%. Rent expense incurred during the years ended September 30, 2018 and 2017 amounted to \$-0- and \$84,476, respectively.

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 15 - Operating Lease

In November 2015, the Organization entered into an agreement to lease office space in Washington D.C. The lease commenced in January 2017 and has a 130 month term expiring on October 31, 2027. The lease calls for initial monthly payments of \$42,360 beginning in November 2017 with annual increases of 2.5%. The lease is also subject to common area maintenance of 7.94% of increased operating expenses and increased real estate taxes over the 2017 base year. The Organization has one option to extend the lease for an additional 5 year period with base rent to be calculated at the then prevailing market rent. The optional lease extension was not included in the operating lease right of use asset and lease liability calculation. The lease also allowed for a tenant improvement allowance in the amount of \$856,725.

The Organization early adopted Accounting Standards Update No. 2016-2 Leases during the year ended September 30, 2017, and recognized a right of use asset in exchange for a lease liability, initially measured at the present value of the lease payments in the statement of financial position. The Organization used the risk free rate of return (prime rate) at the commencement date of the lease of 3.75% to calculate the present value of the lease payments. The present value of the right of use asset and lease liability at September 30, 2018 and 2017 amounted to \$4,544,843 and \$4,841,786, respectively.

The weighted average remaining lease term for the operating lease at September 30, 2018 and 2017 was 109 months and 121 months, respectively. The weighted average discount rate for the operating lease at September 30, 2018 and 2017 was 3.75%.

The cost of the lease is allocated over the lease term on a straight-line basis. Lease expense for the year ended September 30, 2018 and 2017 amounted to \$469,394 and \$352,042, respectively.

The Organization has future minimum lease payments on the above operating lease as follows:

<u>Year Ending September 30:</u>	
2019	\$ 535,685
2020	549,088
2021	562,835
2022	585,931
2023	603,549
Thereafter	<u>2,624,864</u>
Total	5,461,952
Less: present value discount	<u>(917,109)</u>
Lease liability	<u><u>\$ 4,544,843</u></u>

Total rent expense for the years ended September 30, 2018 and 2017 was \$469,394 and \$436,518, respectively.

Americans United for Separation of Church and State
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 September 30, 2018

Note 16 - Finance Leases

The Organization leases equipment under agreements that have been accounted for as finance leases. The leases expire from July, 2019 to January, 2022. The finance leases have been capitalized and recorded as right of use assets in the statement of financial position. The finance 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 3.8% to 5.5%. The capitalized cost of the leased equipment amounted to \$78,422 as of September 30, 2018 and 2017. At September 30, 2018 and 2017, the book value of the equipment was \$45,989 and \$61,556, respectively.

Amortization expense attributable to the equipment amounted to \$15,567 and \$16,866 for the years ended September 30, 2018 and 2017, respectively, and is included in depreciation expense.

Interest expense incurred on the leases amounted to \$2,186 and \$2,281 during the years ended September 30, 2018 and 2017, respectively.

The weighted average remaining lease term for finance leases as of September 30, 2018 and 2017 amounted to 3.21 years and 4.14 years, respectively.

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

<u>Year Ending September 30:</u>	
2019	\$ 16,793
2020	14,525
2021	14,525
2022	<u>4,841</u>
Total future minimum lease payments	50,684
Less amount representing interest	<u>(3,070)</u>
Present value of future minimum payments (including current portion of \$15,234)	<u><u>\$ 47,614</u></u>

Americans United for Separation of Church and State
NOTES TO FINANCIAL STATEMENTS (Cont.)
September 30, 2018

Note 17 - Subsequent Events

The Organization has evaluated the impact of significant subsequent events. There have been no subsequent events through March 27, 2019, 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, 2018

With Summarized Financial Information for the Year Ended September 30, 2017

	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	2018	2017
Salaries	\$ 636,931	\$ 665,478	\$ 852,931	\$ -	\$ 2,155,340	\$ 373,209	\$ 262,367	\$ 635,576	\$ 2,790,916	\$ 2,932,317
Employee benefits/payroll taxes	200,767	229,576	289,640	-	719,983	177,063	98,181	275,244	995,227	925,178
Direct mail	363,362	-	-	-	363,362	84,191	477,758	561,949	925,311	1,011,289
Office rent/lease expense	107,123	111,924	143,451	-	362,498	62,769	44,127	106,896	469,394	436,518
Consulting fees	134,914	11,879	17,851	-	164,644	6,663	182,464	189,127	353,771	364,294
Printing and production	151,776	2,685	12,271	-	166,732	1,370	27,745	29,115	195,847	170,314
Professional fees	28,249	29,516	37,830	-	95,595	16,553	67,358	83,911	179,506	173,882
Depreciation and amortization	44,043	33,827	43,355	-	121,225	18,970	13,336	32,306	153,531	139,827
Postage and delivery	116,084	6,964	1,567	-	124,615	1,954	19,362	21,316	145,931	155,365
Dues and subscriptions	19,240	36,933	57,589	-	113,762	14,501	7,918	22,419	136,181	158,755
Special events	-	-	-	-	-	-	102,365	102,365	102,365	52,873
Trustees expenses	-	-	-	84,719	84,719	-	-	-	84,719	65,688
Bank fees	19,014	19,900	25,254	-	64,168	11,647	8,334	19,981	84,149	66,227
Travel and entertainment	7,851	11,611	34,572	-	54,034	21,677	7,594	29,271	83,305	122,012
Computer and other supplies	35,078	11,646	9,354	-	56,078	21,199	5,878	27,077	83,155	34,054
Telephone, internet and website	19,338	11,802	11,720	-	42,860	9,838	3,722	13,560	56,420	72,373
Campaigns	48,863	-	-	-	48,863	-	-	-	48,863	-
Meetings and conventions	3,838	38,849	150	-	42,837	-	79	79	42,916	57,333
Data processing	-	-	-	-	-	-	42,044	42,044	42,044	45,561
Writers and news services	12,554	-	-	-	12,554	2,284	15,000	17,284	29,838	15,193
Other	-	2,288	1,080	-	3,368	8,640	16,504	25,144	28,512	49,447
Accounting/audit	6,331	6,614	8,478	-	21,423	3,709	2,608	6,317	27,740	30,617
Insurance	4,827	5,043	12,538	-	22,408	2,828	1,988	4,816	27,224	27,261
Chapter reimbursements	-	26,451	-	-	26,451	-	-	-	26,451	29,444
Donated services	-	-	10,320	-	10,320	-	-	-	10,320	15,000
Utilities	2,193	2,291	2,937	-	7,421	1,285	903	2,188	9,609	2,768
Advertising	4,090	-	-	-	4,090	3,432	-	3,432	7,522	4,967
Payroll services	1,689	1,764	2,261	-	5,714	990	696	1,686	7,400	6,908
Temporary help	4,000	1,000	2,000	-	7,000	-	-	-	7,000	3,000
Minor equipment	721	753	966	-	2,440	3,721	297	4,018	6,458	5,958
Interest expense	499	521	668	-	1,688	292	206	498	2,186	2,281
Total expenses	\$ 1,973,375	\$ 1,269,315	\$ 1,578,783	\$ 84,719	\$ 4,906,192	\$ 848,785	\$ 1,408,834	\$ 2,257,619	\$ 7,163,811	\$ 7,176,704