

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

Financial Statements

Years Ended December 31, 2003 and 2002



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INDEPENDENT AUDITOR S'REPORT

To the Board of Directors
Americans For Effective Law Enforcement, Inc.
Park Ridge, Illinois

We have audited the accompanying statements of financial position of Americans For Effective Law Enforcement, Inc. (a not-for-profit organization) as of December 31, 2003 and 2002, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization s' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Americans for Effective Law Enforcement, Inc. as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Vladem, Lerman Sweeney and Company, LLP
Certified Public Accountants

Vladem, Lerman, Sweeney & Company, LLP

Skokie, Illinois
April 20, 2004

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash in checking accounts	\$ 31,071	\$ 13,164
Cash in savings and short-term investments - Note A	464,353	442,351
Marketable securities - Note D	1,628,928	1,237,228
Accounts receivable - Note A	3,890	
Prepaid expenses	<u>49,364</u>	<u>29,762</u>
TOTAL CURRENT ASSETS	2,177,606	1,729,366
PROPERTY AND EQUIPMENT - Notes A and C		
Building and improvements	565,634	565,634
Furniture and equipment	<u>96,132</u>	<u></u>
TOTAL PROPERTY AND	661,766	661,766
Less accumulated depreciation	<u>150,169</u>	<u>119,185</u>
NET PROPERTY AND EQUIPMENT	511,597	542,581
OTHER ASSETS		
Investment--partnership - Note B	<u>(167,187)</u>	<u>(126,332)</u>
TOTAL ASSETS	<u>\$ 2,522,016</u>	<u>\$ 2,145,615</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

	Years Ended December 31,	
	2003	2002
	<u>Unrestricted</u>	<u>Unrestricted</u>
Revenues - Note A		
Workshops	\$ 330,377	\$ 492,556
Subscriptions and audio visual	231,634	292,803
Investment income	30,734	32,909
Realized and unrealized gains (losses) on marketable securities	628,480	(203,719)
Public information and other	79	
Investment gain (loss) - partnership	21,605	16,880
TOTAL REVENUES	<u>1,242,909</u>	<u>633,962</u>
Expenses		
Salaries	237,177	290,584
Workshops	164,490	267,287
Professional writing	91,989	94,526
Insurance	88,456	95,098
Utilities	6,743	
Postage and shipping	17,606	16,836
Law library and subscriptions	21,483	21,705
Sample issues	-	
Publications	45,673	72,697
Office supplies	6,341	14,627
Outside services	31,854	35,715
Professional fees	12,116	12,213
Payroll taxes	13,294	18,374
Telephone	6,967	
Travel and entertainment	9,990	11,955
Computer expense	7,434	10,348
Depreciation	30,984	36,006
Amicus briefs	2,615	
Taxes and service charges	8,491	
Miscellaneous printing	460	
Miscellaneous expense	409	
Repairs and maintenance	1,065	
Investment management fees	26,156	24,011
Real estate taxes	21,952	23,036
TOTAL EXPENSES	<u>853,745</u>	<u>1,080,764</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 389,164</u>	<u>\$ (446,802)</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

	Years Ended December 31,	
	2003	2002
	<u>Unrestricted</u>	<u>Unrestricted</u>
Net assets at beginning of year	\$ 1,856,316	\$ 2,303,118
Increase (Decrease) in net assets	<u>389,164</u>	<u>(446,802)</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,245,480</u></u>	<u><u>\$ 1,856,316</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**STATEMENTS OF FINANCIAL POSITION**

	Years Ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 389,164	\$ (446,802)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	30,984	36,006
(Gains) losses on marketable securities	(622,476)	208,930
Investment (gains) losses - partnership	(21,605)	(15,797)
(Increase) decrease in:		
Accounts receivable	2,971	6,798
Prepaid expenses	(19,602)	32,590
Increase (decrease) in:		
Accounts payable and accrued expenses	(18,144)	29,985
Deferred revenue	5,381	
NET CASH USED IN OPERATING ACTIVITIES	(253,327)	(139,192)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(801,945)	(1,360,544)
Sale of marketable securities	1,032,721	1,284,247
Purchase of property and equipment	0	(8,199)
Capital distribution - partnership	62,460	6,940
NET CASH PROVIDED BY (USED IN) INVESTING	293,236	(77,556)
NET INCREASE (DECREASE) IN CASH AND CASH	39,909	(216,748)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR - NOTE A	455,515	672,263
CASH AND CASH EQUIVALENTS AT END OF	\$ 495,424	\$ 455,515

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Organization maintains a national legal research center to assist law enforcement agencies. They also provide legal publications and workshops as well as filing amicus curiae briefs in the United States Supreme Court and other major courts in support of the law enforcement issues.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers short-term investments, such as money-market accounts, certificates of deposit and other highly liquid assets as cash equivalents.

Accounts Receivable

The Organization considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they are charged to operations when that determination is made.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

The cost of property and equipment is being depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Building and improvements	5 - 40 years
Furniture and fixtures	5 - 7 years
Computer and office equipment	3 - 5 years
Computer software	3 years

Depreciation expense amounted to \$30,984 and \$36,006 for the years ended December 31, 2003 and 2002, respectively.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 and 2002

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Concentration of Credit Risk

The Organization provides credit in the normal course of business to customers throughout the United States. The Company maintains its cash balances at various financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2003 and 2002, the Organization's uninsured cash balances totaled \$ 45,294 and \$142,354, respectively.

Revenue Recognition and Deferred Revenue

Voluntary contributions are recorded as revenue when received, except when specified by the donor for use in future periods. There were no contributions received in 2003 and 2002.

Deferred revenue arises from contributions, prepayments of workshop fees and subscription revenue applicable to future periods. Specifically, the Organization recognizes all subscription revenues received for subscriptions commencing in the current year as revenue in the current year. Subscription revenue received in the current year for subscriptions commencing in the following year is deferred.

Income Taxes

Americans for Effective Law Enforcement, Inc. is a not-for-profit organization which is exempt from federal income taxes on its not-for-profit activities under Internal Revenue Code Section 501(c)(3). However, unrelated activities are subject to income taxation under the Internal Revenue Code. During 1999 and 1998, the Organization reported losses from unrelated activities and, therefore, paid no income taxes.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. No permanently or temporarily restricted assets were held, and accordingly, these financials do not reflect any activity related to these classes of net assets.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

NOTE B -- INVESTMENT--PARTNERSHIP

In 1993, the Organization purchased an interest in Spectrum, LLC (a real estate limited liability company) for \$150,000, which is accounted for using the equity method. In 2000, an additional \$41,640 was contributed due to a capital call by the managing partner. At December 31, 2003 and 2002, the book value of the Organization's 13.88% interest amounted to \$(167,187) and \$(126,332), respectively. A summary of financial information of Spectrum, LLC as of December 31, 2003 and 2002 is shown below:

	<u>2003</u>	<u>2002</u>
Net assets	\$ (351,942)	\$ (57,597)
Net sales	\$ 1,036,997	\$ 999,098
Net income	\$ 155,652	\$ 89,814

NOTE C -- BUILDING PURCHASE

In August 2000, the Organization purchased a building in Park Ridge, Illinois for its own exclusive use for \$495,000 in cash. In conjunction with this purchase, the Organization applied for charitable organization status with the State of Illinois for the purpose of obtaining an exemption of approximately \$20,000 in annual county real estate taxes. This application is currently pending and an outcome is deemed indeterminable at this time.

Until a final decision is reached on this application, the Organization is required to pay the real estate taxes as they are regularly assessed. In the event the exemption is granted, all taxes since the date of occupancy will be refunded. Consequently, taxes amounting to \$21,635 and \$21,318 have been accrued for the years ended December 31, 2003 and 2002, respectively.

NOTE D -- MARKETABLE SECURITIES

Marketable securities are stated at fair value and consist of equity securities. As of December 31, 2003 and 2002, the Organization had unrealized holding gains (losses) on these securities as follows:

	<u>2003</u>	<u>2002</u>
Market value	\$ 1,628,928	\$ 1,237,227
Original cost	<u>1,131,083</u>	<u>1,388,133</u>
Unrealized gain (loss)	\$ <u>497,845</u>	\$ <u>(150,906)</u>

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

NOTE E -- JOINT PUBLISHING AGREEMENT

In January, 2002, the Organization entered into a Joint Publishing Agreement with the Public Safety Personnel Research Institute, Inc. (PSPRI), an Illinois corporation owned entirely by the Executive Director. Subsequently, in 2002, PSPRI liquidated its assets and ceased operations, with the Executive Director assuming the Agreement. Pursuant to the Agreement, which is effective January 1, 2002, the Organization produces a joint publication, which includes two publications owned by AELE and a single publication owned by the former PSPRI. The purpose of the agreement is to pursue a web-based platform for the publications, which is anticipated to enhance subscriber value and increase circulation. Net profits from the publication will be apportioned using an agreed upon formula, based on respective subscriber counts for each publication from the previous year. AELE will be responsible for the website administration, bills and collection, and any printing and mailing of associated documentation. Applicable direct and indirect expenses will be apportioned based on external criteria and reasonable estimates of overhead. The amount earned by the Executive Director under this agreement amounted to \$16,545 and \$33,438 in 2003 and 2002, respectively.