

FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

DECEMBER 31, 2004 AND 2003

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

Financial Statements

Years Ended December 31, 2004 and 2003

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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, 2004 and 2003, 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, 2004 and 2003, 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 & Company, LLP

Skokie, Illinois
May 9, 2005

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2004	2003
ASSETS		
CURRENT ASSETS		
Cash in checking accounts	\$ 43,724	\$ 31,071
Cash in savings and short-term investments - Note A	317,978	464,353
Marketable securities - Note D	1,769,973	1,628,928
Accounts receivable - Note A	14,567	3,890
Prepaid expenses	42,716	49,364
TOTAL CURRENT ASSETS	2,188,958	2,177,606
PROPERTY AND EQUIPMENT - Notes A and C		
Building and improvements	565,634	565,634
Furniture and equipment	100,144	96,132
TOTAL PROPERTY AND EQUIPMENT	665,778	661,766
Less accumulated depreciation	179,255	150,169
NET PROPERTY AND EQUIPMENT	486,523	511,597
OTHER ASSETS		
Investment--partnership - Note B	(175,190)	(167,187)
TOTAL ASSETS	\$ 2,500,291	\$ 2,522,016

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

	December 31, 2004	2003
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 204,558	\$ 169,187
Income taxes payable - Note A	903	0
Deferred revenue - Note A	78,748	107,349
TOTAL CURRENT LIABILITIES	284,209	276,536
NET ASSETS - Note A		
Unrestricted	2,216,082	2,245,480
TOTAL LIABILITIES AND NET ASSETS	\$ 2,500,291	\$ 2,522,016

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF ACTIVITIES

		Years Ended December 31,	
		2004	2003
		Unrestricted	Unrestricted
Revenues - Note A			
Workshops		\$ 457,644	\$ 330,377
Subscriptions and audio visual		196,229	231,634
Investment income		31,985	30,734
Realized and unrealized gains (losses) on marketable securities		196,278	628,480
Contributions received		1,644	0
Public information and other income		0	79
Investment gain (loss) - partnership		5,895	21,605
	TOTAL REVENUES	889,675	1,242,909
Expenses			
Salaries		253,744	237,177
Workshops		217,690	164,490
Professional writing		93,444	91,989
Insurance		74,583	88,456
Utilities		6,331	6,743
Postage and shipping		22,265	17,606
Law library and subscriptions		23,890	21,483
Sample issues		4,225	-
Publications		32,373	45,673
Office supplies		13,714	6,341
Outside services		33,581	31,854
Professional fees		13,701	12,116
Payroll taxes		14,738	13,294
Telephone		5,974	6,967
Travel and entertainment		11,080	9,990
Computer expense		6,703	7,434
Depreciation		29,086	30,984
Amicus briefs		1,571	2,615
Taxes and service charges		10,934	8,491
Miscellaneous printing		640	460
Miscellaneous expense		304	409
Repairs and maintenance		4,666	1,065
Investment management fees		21,254	26,156
Real estate taxes		22,582	21,952
	TOTAL EXPENSES	919,073	853,745
	(DECREASE) INCREASE IN NET ASSETS	\$ (29,398)	\$ 389,164

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31,	
	2004	2003
	<u>Unrestricted</u>	<u>Unrestricted</u>
Net assets at beginning of year	\$ 2,245,480	\$ 1,856,316
Increase (Decrease) in net assets	<u>(29,398)</u>	<u>389,164</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,216,082</u>	<u>\$ 2,245,480</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (29,398)	\$ 389,164
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	29,086	30,984
(Gains) losses on marketable securities	(196,278)	(622,476)
Investment (gains) losses - partnership	(5,895)	(21,605)
(Increase) decrease in:		
Accounts receivable	(10,677)	2,971
Prepaid expenses	6,648	(19,602)
Increase (decrease) in:		
Accounts payable and accrued expenses	35,371	(18,144)
Income taxes payable	903	0
Deferred revenue	(28,601)	5,381
NET CASH USED IN OPERATING ACTIVITIES	(198,841)	(253,327)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(2,376,582)	(801,945)
Sale of marketable securities	2,431,815	1,032,721
Purchase of property and equipment	(4,012)	0
Capital distribution - partnership	13,898	62,460
NET CASH PROVIDED BY INVESTING ACTIVITIES	65,119	293,236
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(133,722)	39,909
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR - NOTE A	495,424	455,515
CASH AND CASH EQUIVALENTS AT END OF YEAR - NOTE A	\$ 361,702	\$ 495,424
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 297	0

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

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 \$29,086 and \$30,984 for the years ended December 31, 2004 and 2003, respectively.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

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, 2004 and 2003, the Organization's uninsured cash balances totaled \$0 and \$45,294, 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. The Organization received contributions in the amount of \$1,644 in 2004 and \$0 in 2003.

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. As such, a provision for federal and state taxes in the amount of \$903 has been included in taxes and service charges for the year ended December 31, 2004.

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, 2004 and 2003

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, 2004 and 2003, the book value of the Organization's 13.89% interest amounted to \$(175,190) and \$(167,187), respectively. A summary of financial information of Spectrum, LLC as of December 31, 2004 and 2003 is shown below:

	<u>2004</u>	<u>2003</u>
Net assets	\$ (415,305)	\$ (351,942)
Net sales	\$ 1,027,099	\$ 1,036,997
Net income	\$ 42,472	\$ 155,652

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. The Organization is required to pay the real estate taxes as they are regularly assessed. Real estate taxes amounting to \$22,109 and \$21,635 have been accrued for the years ended December 31, 2004 and 2003, respectively.

NOTE D -- MARKETABLE SECURITIES

Marketable securities are stated at fair value and consist of equity securities. As of December 31, 2004 and 2003, the Organization had unrealized holding gains (losses) on these securities as follows:

	<u>2004</u>	<u>2003</u>
Market value	\$ 1,769,973	\$ 1,628,928
Original cost	<u>1,547,643</u>	<u>1,131,083</u>
Unrealized gain	\$ <u>222,330</u>	\$ <u>497,845</u>

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

NOTE E – POSTRETIREMENT PLAN

The Company sponsors a defined postretirement plan that covers health care premiums for its full-time employees. Eligible persons are those who have worked for the Organization (“AELE”) at least 20 years as a full-time employee and who are still employed at AELE when they reach age 65, or who have worked for AELE at least 25 years as a full-time employee, and who are still employed at AELE when they reach age 62 and either retire or work part-time or work in an unpaid or reduced compensations emeritus status. The plan is noncontributory and is unfunded. AELE will provide supplemental coverage to all eligible employees with limits on premium payments of four percent of the premium cost for each year of full-time service as an employee.

NOTE F -- 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 \$4,080 and \$16,545 in 2004 and 2003, respectively.