

FINANCIAL STATEMENTS

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

DECEMBER 31, 2007 AND 2006

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

Financial Statements

Years Ended December 31, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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.

*Lerman, Sweeney & Company, LLP*

Skokie, Illinois  
July 16, 2008

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2007	2006
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ASSETS		
CURRENT ASSETS		
Cash in checking accounts	\$ 35,298	\$ 29,482
Cash in savings and short-term investments - Note A	115,233	158,918
Marketable securities - Note D	1,974,141	1,962,253
Accounts receivable - Note A	13,695	5,855
Prepaid expenses	33,125	35,031
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	2,171,492	2,191,539
PROPERTY AND EQUIPMENT - Notes A and C		
Building and improvements	565,634	565,634
Furniture and equipment	104,859	104,859
	<hr/>	<hr/>
TOTAL PROPERTY AND EQUIPMENT	670,493	670,493
Less accumulated depreciation	250,342	228,719
	<hr/>	<hr/>
NET PROPERTY AND EQUIPMENT	420,151	441,774
OTHER ASSETS		
Investment--partnership - Note B	(154,274)	(158,968)
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,437,369</u>	<u>\$ 2,474,345</u>

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

	December 31,	
	2007	2006
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LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 216,985	\$ 211,073
Income taxes payable - Note A	903	903
Deferred revenue - Note A	62,237	78,280
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	280,125	290,256
NET ASSETS - Note A		
Unrestricted	2,157,244	2,184,089
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,437,369</u>	<u>\$ 2,474,345</u>

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

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF ACTIVITIES

		Years Ended December 31,	
		2007	2006
		<u>Unrestricted</u>	<u>Unrestricted</u>
Revenues - Note A			
Workshops		\$ 572,355	\$ 551,926
Subscriptions and audio visual		632	90,763
Investment income		41,298	44,907
Realized and unrealized gains (losses) on marketable securities		196,624	294,124
Contributions received		400	900
Investment gain (loss) - partnership		<u>4,694</u>	<u>3,263</u>
	TOTAL REVENUES	816,003	985,883
Expenses			
Salaries		252,716	256,707
Workshops		213,461	254,218
Insurance		95,719	89,319
Professional writing		47,730	89,984
Outside services		32,646	31,741
Investment management fees		24,461	26,245
Real estate taxes		22,225	20,341
Depreciation		21,623	23,556
Postage and shipping		20,782	25,541
Publications		18,720	31,042
Law library and subscriptions		16,568	20,074
Payroll taxes		14,822	14,312
Computer expense		13,674	9,289
Taxes and service charges		9,895	14,799
Professional fees		9,564	10,847
Travel and entertainment		7,578	11,757
Utilities		6,922	6,857
Office supplies		5,899	9,390
Telephone		5,629	6,974
Repairs and maintenance		2,067	600
Miscellaneous printing		147	322
Amicus briefs		0	3,067
Miscellaneous expense		<u>0</u>	<u>513</u>
	TOTAL EXPENSES	<u>842,848</u>	<u>957,495</u>
	INCREASE (DECREASE) IN NET ASSETS	<u>\$ (26,845)</u>	<u>\$ 28,388</u>

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

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended December 31,	
	2007	2006
	<u>Unrestricted</u>	<u>Unrestricted</u>
Net assets at beginning of year	\$ 2,184,089	\$ 2,155,701
Increase (Decrease) in net assets	<u>(26,845)</u>	<u>28,388</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,157,244</u></u>	<u><u>\$ 2,184,089</u></u>

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

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (26,845)	\$ 28,388
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	21,623	23,556
(Gains) losses on marketable securities	(196,624)	(294,124)
Investment (gains) losses - partnership	(4,694)	(3,263)
(Increase) decrease in:		
Accounts receivable	(7,840)	10,135
Prepaid expenses	1,906	12,083
Increase (decrease) in:		
Accounts payable and accrued expenses	5,912	22,418
Deferred revenue	(16,043)	(21,357)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(222,605)</b>	<b>(222,164)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of marketable securities	(1,252,292)	(1,863,744)
Sale of marketable securities	1,437,028	2,110,581
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>184,736</b>	<b>246,837</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(37,869)</b>	<b>24,673</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR - NOTE A</b>	<b>188,400</b>	<b>163,727</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR - NOTE A</b>	<b>\$ 150,531</b>	<b>\$ 188,400</b>

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



AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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 \$21,623 and \$23,556 for the years ended December 31, 2007 and 2006, respectively.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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 credit risk with respect to these receivables is generally considered minimal, and procedures are in effect to monitor the credit worthiness of customers.

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, 2007 and 2006, the uninsured cash balance was \$66,744 and \$0 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 \$400 in 2007 and \$900 in 2006.

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.

In March 2006, the Board of Directors of the Organization made a determination to discontinue charging subscription fees for all Monthly Law Summary publications. Consequently, renewal notices will not be sent to existing subscribers after the June 2006 renewal period. These legal publications will be accessible by the public without a password on the Organization's website beginning with the September 2006 issues. Revenues from these publications were approximately \$90,000 in 2006.

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 both years ended December 31, 2007 and 2006.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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

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.

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, 2007 and 2006, the book value of the Organization's 13.89% interest amounted to \$(154,274) and \$(158,968), respectively. A summary of financial information of Spectrum, LLC as of December 31, 2007 and 2006 is shown below:

	<u>2007</u>	<u>2006</u>
Net liabilities	\$ (264,809)	\$(298,588)
Net sales	\$ 796,892	\$ 816,037
Net income	\$ 32,350	\$ 23,476

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 \$22,776 and \$22,109 have been accrued for the years ended December 31, 2007 and 2006, respectively.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

NOTE D -- MARKETABLE SECURITIES

Marketable securities are stated at fair value and consist of equity securities. As of December 31, 2007 and 2006, the Organization had unrealized holding gains (losses) on these securities as follows:

	<u>2007</u>	<u>2006</u>
Market Value	\$ 1,974,141	\$ 1,962,253
Original cost	<u>1,647,792</u>	<u>1,649,680</u>
Unrealized gain	<u>\$ 326,349</u>	<u>\$ 312,573</u>

NOTE E -- POST RETIREMENT PLAN

The Organization sponsors a defined post-retirement plan that covers health care premiums for its full-time employees. Eligible persons are either:

- Those who have worked for the Organization full-time for at least 20 years and are still employed at the Organization at age 65, or
- Those who have worked full-time at the Organization for at least 25 years, and are still employed at the Organization at age 62

and who retire, work part-time or work in an unpaid or reduced compensation emeritus status.

The plan is noncontributory and is unfunded. The Organization 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.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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 collections, and any pricing and mailing of associated documentation. Applicable direct and indirect expenses will be apportioned based on external criteria and reasonable estimates of overhead. In December 2005, the Executive Director agreed to waive any royalty fee due under this agreement for 2007 and 2006.