

**AMERICANS FOR EFFECTIVE LAW
ENFORCEMENT, INC.**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

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Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 29, 2017

To the Board of Directors
Americans for Effective Law Enforcement, Inc.

We have audited the accompanying financial statements of Americans for Effective Law Enforcement, Inc., which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years 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 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 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.

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, 2016 and 2015, 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.

Cheryl Rohlfs & Associates, Ltd.

CHERYL ROHLFS & ASSOCIATES, LTD.
Northbrook, Illinois

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents	\$ 125,955	\$ 135,548
Investments	182,449	177,021
Accounts Receivable	21,889	4,665
Prepaid Expenses	21,571	17,421
Property and Equipment:		
Building	495,335	495,335
Building Improvements	39,406	39,406
Furniture and Equipment	<u>39,073</u>	<u>39,073</u>
	573,814	573,814
Less: Accumulated Depreciation	<u>(281,045)</u>	<u>(268,662)</u>
Total Property and Equipment	<u>292,769</u>	<u>305,152</u>
Other Assets:		
Investment in Real Estate Company	<u>(159,114)</u>	<u>(166,310)</u>
Total Assets	<u>\$ 485,519</u>	<u>\$ 473,497</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 9,387	\$ 2,154
Income Taxes Payable	708	3,077
Accrued Real Estate Taxes	19,965	21,786
Accrued Vacation Pay	33,838	46,031
Deferred Revenues	<u>149,900</u>	<u>110,016</u>
Total Liabilities	<u>213,798</u>	<u>183,064</u>
Net Assets		
Unrestricted Net Assets	<u>271,721</u>	<u>290,433</u>
Total Net Assets	<u>271,721</u>	<u>290,433</u>
Total Liabilities and Net Assets	<u>\$ 485,519</u>	<u>\$ 473,497</u>

See accompanying notes and independent auditor's report.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES:		
Workshops	\$ 358,323	\$ 404,709
Investment Income	16,530	15,317
Miscellaneous Income	24	168
Total Revenues	<u>\$ 374,877</u>	<u>\$ 420,194</u>
EXPENSES:		
Workshops	\$ 141,182	\$ 128,657
Salaries	59,328	70,667
Payroll Taxes	5,471	6,506
Outside Services	17,762	17,575
Building Maintenance	523	2,052
Depreciation	12,383	12,708
Insurance	32,499	40,424
Investment Management Fees	2,117	1,558
Law Library and Subscriptions	7,895	12,614
Office Supplies and Expenses	5,507	5,491
Occupancy	4,827	4,975
Postage and Shipping	12,269	12,252
Professional Fees	22,574	9,841
Professional Writing	15,420	15,420
Publications	8,640	8,640
Real Estate Taxes	18,733	22,935
Income Taxes	3,366	2,750
Fees and Service Charges	12,097	11,721
Communications	8,340	8,223
Travel Expenses	2,657	723
Total Expenses	<u>\$ 393,590</u>	<u>\$ 395,732</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (18,713)</u>	<u>\$ 24,462</u>
Net Assets at Beginning of Year	<u>290,434</u>	<u>265,972</u>
Net Assets at End of Year	<u><u>\$ 271,721</u></u>	<u><u>\$ 290,434</u></u>

See accompanying notes and independent auditor's reports.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ (18,712)	\$ 24,461
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	12,383	12,708
Realized (Gains) Losses on Marketable Securities	1,957	(4,921)
Unrealized (Gains) Losses on Marketable Securities	(4,104)	5,178
Realized (Gains) in Investment in Real Estate Company	(9,976)	(13,556)
 (Increase) Decrease in Operating Assets:		
Accounts Receivable	(17,224)	1,300
Prepaid Expenses	(4,150)	11,748
 Increase (Decrease) in Operating Liabilities:		
Accounts Payable	7,233	(14,758)
Income Taxes Payable	(2,369)	(13,767)
Accrued Real Estate Taxes	(1,821)	3,077
Accrued Vacation Pay	(12,193)	1,150
Deferred Revenues	<u>39,884</u>	<u>(70,959)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 \$ <u>(9,092)</u>	 \$ <u>(58,339)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Distributions From Investment in Real Estate Company	\$ 2,780	\$ 27,240
Purchases of Investments	<u>(3,281)</u>	<u>(2,109)</u>
 NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	 \$ <u>(501)</u>	 \$ <u>25,131</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	 \$ <u>-</u>	 \$ <u>-</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 \$ (9,593)	 \$ (33,208)
 CASH, BEGINNING OF YEAR	 <u>135,548</u>	 <u>168,756</u>
 CASH, END OF YEAR	 <u>\$ 125,955</u>	 <u>\$ 135,548</u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Americans for Effective Law Enforcement, Inc. (Organization) maintains a national legal research center to assist law enforcement agencies. The Organization produces and disseminates legal information through workshops and publications. AELE's Friend of the Court program was founded in 1967 and has filed amicus curiae briefs in the United States Supreme Court and other major courts in support of law enforcement issues.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

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. As of December 31, 2016 and 2015, the Organization did not have temporarily or permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

The Organization carries its investments in marketable securities with readily determinable fair values at their fair values in the Statement of Financial Position.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management has chosen not to provide for uncollectible amounts through a provision for bad debt expense. Balances that are still outstanding after management has used reasonable collections efforts are written off through a charge to bad debt expense and a credit to accounts receivable, which have not been material to the financial statements.

Property and Equipment

The Organization capitalized all property and equipment expenditures over \$500. Purchased property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Building Improvements	5-20 years
Equipment and Furniture	3-7 years

Deferred Revenues

Workshop fees received in the current year that are applicable to the subsequent year are recorded as Deferred Revenues.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Internal Revenue Code Section 501(c)(3). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization has an investment in a real estate company, and the related income is subject to tax as unrelated business income. The Organization has filed the appropriate tax filings. The Organization believes that it has appropriate support for any tax positions taken, and does not have any uncertain tax positions that are material to the financial statements.

2. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2016 are as follows:

Fair Value Measurements at Reporting Date Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Investments:				
Marketable Securities	\$ 182,449	\$ 128,368	\$ 54,081	\$ -

Fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

Fair Value Measurements at Reporting Date Using:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Investments:				
Marketable Securities	\$ <u>177,021</u>	\$ <u>145,478</u>	\$ <u>31,543</u>	\$ <u>-</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Equity securities and equity mutual funds that trade in active markets are valued using quoted market prices and are classified as Level 1. Emerging Traded Products invested in corporate or municipal bonds and government securities are valued at closing price on national exchanges if available, or by using pricing models maximizing the use of observable inputs for similar securities and are classified as Level 2.

3. INVESTMENTS

The Organization invested in the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Exchange Traded Products	\$ <u>182,449</u>	\$ <u>177,021</u>

Investment income is comprised of the following for the year 2016:

	<u>2016</u>	<u>2015</u>
Dividend and Interest Income	\$ 4,406	\$ 2,018
Unrealized Gains (Losses)	4,105	(5,178)
Realized Gains (Losses)	(1,957)	4,921
Realized Gain in Investment in Real Estate Company	<u>9,976</u>	<u>13,556</u>
Total Investment Income	\$ <u>16,530</u>	\$ <u>15,317</u>

4. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in a financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2016 and 2015, the Organization did not have cash balances exceeding the federally insured limits.

5. INVESTMENT IN REAL ESTATE COMPANY

Since 1993, the Organization has had an investment in Spectrum, LLC, a real estate limited liability company, which is accounted for on the equity method. The Organization originally invested \$150,000, which later was increased by an additional \$41,640. At December 31, 2016 and 2015, the 13.89% investment in Spectrum, LLC is recorded at \$(159,114) and \$(166,310), respectively. Summary financial information of Spectrum, LLC as of and for the year ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Assets	\$ 1,561,980	\$ 1,600,969
Liabilities	\$ 2,062,667	\$ 2,130,299
Revenues	\$ 876,370	\$ 906,761
Net Income	\$ 66,559	\$ 92,321

6. POST-RETIREMENT BENEFIT PLAN

The Organization sponsors a post-retirement plan that covers supplemental health insurance coverage for eligible former or current employees for 4% of the premium cost for each year of full-time service as an employee. Eligible persons include: (1) employees who have over 20 years of service as a full time employee when they reach age 65 and are still employed by the Organization, or employees who have over 25 years of service as a full time employee when they reach age 62 and are still employed by the Organization, and (2) employees who retire, and work part-time or in an unpaid or reduced emeritus status.

The health insurance benefit plan is noncontributory and is unfunded.

7. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Organization sold the building in Park Ridge, Illinois for a sales price of \$485,000 on March 10, 2017. The Organization moved its offices to a new leased location in Lincolnshire, Illinois and entered into an operating lease agreement. The new lessor is the Spectrum, LLC, the company in which the Organization has an ownership.

The new lease has three consecutive one-year terms from March 1, 2017 to February 29, 2020. The lease may be terminated by giving the lessor written notice, no later than ninety days prior to the expiration of any of the consecutive one year-periods. The monthly rental payments are \$1,696 for the lease year to February 2018, \$1,747 from March 2018 to February 2019 and \$1,800 from March 2019 to February 2020. The lease required a security deposit of \$1,696. The lease also requires additional rent consisting of a proportionate share of taxes and operating expenses, which approximates \$242 per month and is adjusted annually.

Future minimum rental payments for the three one-year terms of the lease are:

<u>Year Ended</u>	<u>Amount</u>
12/31/2017	\$ 16,960
12/31/2018	20,866
12/31/2019	21,492
12/31/2020	<u>3,599</u>
Total	<u>\$ 62,917</u>

8. EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been considered through August 29, 2017, which was the date the financial statements were available to be issued.