

Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

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

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

June 14, 2018

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, 2017 and 2016, 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 misstatements.

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.

Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

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, 2017 and 2016, 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 Rohlf & Associates, Ltd.

CHERYL ROHLFS & ASSOCIATES, LTD.
Northbrook, Illinois

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 204,767	\$ 125,955
Investments	622,997	182,449
Accounts Receivable	11,414	21,889
Prepaid Expenses	22,272	21,571
Property and Equipment:		
Building	-	495,335
Building Improvements	-	39,406
Furniture and Equipment	<u>14,123</u>	<u>39,073</u>
	14,123	573,814
Less: Accumulated Depreciation	<u>(10,195)</u>	<u>(281,045)</u>
Total Property and Equipment	<u>3,928</u>	<u>292,769</u>
Other Assets:		
Investment in Real Estate Company	(168,335)	(159,114)
Security Deposit	<u>1,696</u>	<u>-</u>
Total Assets	<u>\$ 698,739</u>	<u>\$ 485,519</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 4,509	\$ 9,387
Income Taxes Payable	-	708
Accrued Real Estate Taxes	-	19,965
Accrued Vacation Pay	42,906	33,838
Deferred Revenues	<u>203,750</u>	<u>149,900</u>
Total Liabilities	<u>251,165</u>	<u>213,798</u>
Net Assets		
Unrestricted Net Assets	<u>447,574</u>	<u>271,721</u>
Total Net Assets	<u>447,574</u>	<u>271,721</u>
Total Liabilities and Net Assets	<u>\$ 698,739</u>	<u>\$ 485,519</u>

See accompanying notes and independent auditor's report.

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Workshops	\$ 385,320	\$ 358,323
Gain on Sale of Building	184,919	-
Investment Income	47,915	16,530
Miscellaneous Income	24	24
Total Revenues	<u>\$ 618,178</u>	<u>\$ 374,877</u>
EXPENSES:		
Workshops	\$ 154,414	\$ 141,182
Salaries	85,072	59,328
Payroll Taxes	5,825	5,471
Outside Services	21,654	17,762
Building Maintenance	1,350	523
Depreciation	2,915	12,383
Insurance	26,731	32,499
Investment Management Fees	4,729	2,117
Law Library and Subscriptions	4,779	7,895
Office Supplies and Expenses	11,382	5,507
Occupancy	21,182	23,560
Postage and Shipping	11,111	12,269
Professional Fees	39,361	22,574
Professional Writing	16,620	15,420
Publications	8,640	8,640
Income Taxes	375	3,366
Fees and Service Charges	12,063	12,097
Communications	9,464	8,340
Travel Expenses	4,552	2,657
Miscellaneous	106	-
Total Expenses	<u>\$ 442,325</u>	<u>\$ 393,590</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 175,853</u>	<u>\$ (18,713)</u>
Net Assets at Beginning of Year	<u>271,721</u>	<u>290,434</u>
Net Assets at End of Year	<u><u>\$ 447,574</u></u>	<u><u>\$ 271,721</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 175,853	\$ (18,712)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,915	12,383
Realized (Gains) Losses on Marketable Securities	(6,529)	1,957
Unrealized (Gains) Losses on Marketable Securities	(23,918)	(4,104)
Realized (Gains) in Investment in Real Estate Company	(7,735)	(9,976)
Realized (Gain) on Sale of Building	(184,919)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	10,475	(17,224)
Prepaid Expenses	(701)	(4,150)
Security Deposit	(1,696)	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(4,878)	7,233
Income Taxes Payable	(708)	(2,369)
Accrued Real Estate Taxes	(19,965)	(1,821)
Accrued Vacation Pay	9,068	(12,193)
Deferred Revenues	<u>53,850</u>	<u>39,884</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>\$ 1,112</u>	 <u>\$ (9,092)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Building and Improvements	\$ 475,624	\$ -
Distributions From Investment in Real Estate Company	16,956	2,780
Purchases of Investments	(410,101)	(3,281)
Purchase of Equipment	<u>(4,779)</u>	<u>-</u>
 NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	 <u>\$ 77,700</u>	 <u>\$ (501)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	 <u>\$ -</u>	 <u>\$ -</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 78,812	 \$ (9,593)
 CASH, BEGINNING OF YEAR	 <u>125,955</u>	 <u>135,548</u>
 CASH, END OF YEAR	 <u><u>\$ 204,767</u></u>	 <u><u>\$ 125,955</u></u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, 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

The Organization sold the building in Park Ridge, Illinois for a sale price of \$485,000 on March 10, 2017.

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, 2017 are as follows:

Fair Value Measurements at Reporting Date Using:

	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Unobservable Inputs
<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:			
Marketable Securities	<u>\$ 622,997</u>	<u>\$ 473,447</u>	<u>\$ 149,550</u>
			<u>\$ -</u>

Fair values of assets measured on a recurring basis at December 31, 2016 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>\$ 182,449</u>	<u>\$ 128,368</u>	<u>\$ 54,081</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 22,023	\$ -
Equity Securities	451,424	-
Exchange Traded Products	<u>149,550</u>	<u>\$ 182,449</u>
	<u>\$ 622,997</u>	<u>\$ 182,449</u>

Investment income is comprised of the following for the year 2017:

	<u>2017</u>	<u>2016</u>
Dividend and Interest Income	\$ 9,733	\$ 4,406
Unrealized Gains (Losses)	23,918	4,105
Realized Gains (Losses)	6,529	(1,957)
Realized Gain in Investment in Real Estate Company	<u>7,735</u>	<u>9,976</u>
Total Investment Income	<u>\$ 47,915</u>	<u>\$ 16,530</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, 2017 and 2016, 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, 2017 and 2016, the 13.89% investment in Spectrum, LLC is recorded at \$(168,335) and \$(159,114), respectively. Summary financial information of Spectrum, LLC as of and for the year ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Assets	\$ 1,413,483	\$ 1,561,980
Liabilities	\$ 1,985,742	\$ 2,062,667
Revenues	\$ 780,208	\$ 876,370
Net Income	\$ 50,428	\$ 66,559

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. LEASE COMMITMENT

The Organization moved its offices to Lincolnshire, Illinois in March 2017 and entered into an operating lease agreement for new office space. The lessor is the Spectrum, LLC, the company in which the Organization has an ownership interest.

The 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>
12/31/2018	\$ 20,866
12/31/2019	21,492
12/31/2020	<u>3,599</u>
Total	<u>\$ 45,957</u>

8. EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been considered through June 14, 2018, which was the date the financial statements were available to be issued.