

Cheryl Rohlfs & Associates, Ltd.

*Certified Public Accountants*

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

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

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## **INDEPENDENT AUDITOR'S REPORT**

July 9, 2019

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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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**

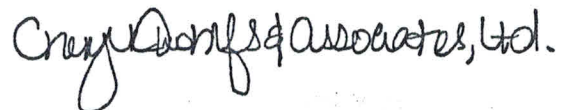
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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.

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, 2018 and 2017, 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.

A handwritten signature in black ink that reads "Cheryl Rohlfs & Associates, Ltd." in a cursive, flowing script.

**CHERYL ROHLFS & ASSOCIATES, LTD.**

Northbrook, Illinois

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 255,050	\$ 204,767
Investments	579,254	622,997
Accounts Receivable	2,480	11,414
Prepaid Expenses	19,149	22,272
Property and Equipment:		
Furniture and Equipment	14,123	14,123
Website	<u>1,650</u>	<u>-</u>
	15,773	14,123
Less: Accumulated Depreciation	<u>(11,219)</u>	<u>(10,195)</u>
Total Property and Equipment	<u>4,554</u>	<u>3,928</u>
Other Assets:		
Investment in Real Estate Company	(154,921)	(168,335)
Security Deposit	<u>1,696</u>	<u>1,696</u>
<b>Total Assets</b>	<u><u>\$ 707,262</u></u>	<u><u>\$ 698,739</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts Payable	\$ 2,930	\$ 4,509
Income Taxes Payable	4,621	-
Accrued Vacation Pay	16,662	42,906
Deferred Revenues	<u>182,630</u>	<u>203,750</u>
<b>Total Liabilities</b>	<u>206,843</u>	<u>251,165</u>
<b>Net Assets</b>		
Without Donor Restrictions	<u>500,419</u>	<u>447,574</u>
<b>Total Net Assets</b>	<u>500,419</u>	<u>447,574</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 707,262</u></u>	<u><u>\$ 698,739</u></u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Changes in Net Assets Without Donor Restrictions:</b>		
<b>Revenues and Gains:</b>		
Workshops	\$ 506,610	\$ 385,320
Gain on Sale of Building	-	184,919
Investment Income (Loss), net of investment expenses of \$7,352 in 2018 and \$4,729 in 2017	(16,457)	43,186
Miscellaneous Income	24	24
<b>Total Revenues and Gains Without Donor Restrictions</b>	<u>\$ 490,177</u>	<u>\$ 613,449</u>
<b>Expenses:</b>		
Program Services	\$ 347,274	\$ 319,388
Supporting Services		
Management and General	90,058	118,208
<b>Total Expenses</b>	<u>\$ 437,332</u>	<u>\$ 437,596</u>
<b>Increase in Net Assets Without Donor Restrictions</b>	\$ 52,845	\$ 175,853
<b>Net Assets at Beginning of Year</b>	<u>447,574</u>	<u>271,721</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 500,419</u></u>	<u><u>\$ 447,574</u></u>

See accompanying notes and independent auditor's reports.



**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>Program</u>	<u>Management and General</u>	<u>2018 Total</u>
Compensation and Related Expenses:			
Compensation	\$ 48,478	\$ 22,078	\$ 70,556
Payroll Taxes	5,111	2,296	7,407
	<u>53,589</u>	<u>24,374</u>	<u>77,963</u>
Professional Fees and Contract Services	8,140	31,273	39,413
Workshops	187,038	-	187,038
Communications	7,857	-	7,857
Publications	8,640	-	8,640
Professional Writing	22,620	-	22,620
Law Library and Subscriptions	6,560	-	6,560
Office Supplies and Expenses	-	4,198	4,198
Postage and Shipping	11,027	-	11,027
Occupancy	16,837	7,564	24,401
Insurance	24,966	1,964	26,930
Fees and Service Charges	-	13,903	13,903
Income Taxes	-	5,630	5,630
Miscellaneous Expenses	-	128	128
Total Expenses Before Depreciation	\$ 347,274	\$ 89,034	\$ 436,308
Depreciation	-	1,024	1,024
<b>TOTAL EXPENSES</b>	<u><u>\$ 347,274</u></u>	<u><u>\$ 90,058</u></u>	<u><u>\$ 437,332</u></u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (CONTINUED)**

	<u>Program</u>	<u>Management and General</u>	<u>2017 Total</u>
Compensation and Related Expenses:			
Compensation	\$ 58,444	\$ 26,628	\$ 85,072
Payroll Taxes	4,002	1,823	5,825
	<u>62,446</u>	<u>28,451</u>	<u>90,897</u>
Professional Fees and Contract Services	8,110	52,905	61,015
Workshops	154,414	-	154,414
Communications	9,464	-	9,464
Publications	8,640	-	8,640
Professional Writing	16,620	-	16,620
Law Library and Subscriptions	4,779	-	4,779
Office Supplies and Expenses	-	11,382	11,382
Postage and Shipping	11,111	-	11,111
Occupancy	14,552	6,630	21,182
Building Maintenance	-	1,350	1,350
Insurance	24,700	2,031	26,731
Travel Expenses	4,552	-	4,552
Fees and Service Charges	-	12,063	12,063
Income Taxes	-	375	375
Miscellaneous Expenses	-	106	106
Total Expenses Before Depreciation	\$ 319,388	\$ 115,293	\$ 434,681
Depreciation	-	2,915	2,915
<b>TOTAL EXPENSES</b>	<u>\$ 311,278</u>	<u>\$ 118,208</u>	<u>\$ 437,596</u>

See accompanying notes and independent auditor's report.



**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 52,845	\$ 175,853
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,024	2,915
Realized (Gains) Losses on Marketable Securities	(6,191)	(6,529)
Unrealized (Gains) Losses on Marketable Securities	54,495	(23,918)
Realized (Gains) in Investment in Real Estate Company	(27,311)	(7,735)
Realized (Gain) on Sale of Building	-	(184,919)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	8,934	10,475
Prepaid Expenses	3,123	(701)
Security Deposit	-	(1,696)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,579)	(4,878)
Income Taxes Payable	4,621	(708)
Accrued Real Estate Taxes	-	(19,965)
Accrued Vacation Pay	(26,244)	9,068
Deferred Revenues	<u>(21,120)</u>	<u>53,850</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 42,597</u>	 <u>\$ 1,112</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of Building and Improvements	\$ -	\$ 475,624
Distributions From Investment in Real Estate Company	13,898	16,956
Purchases of Investments	(4,562)	(410,101)
Purchase of Equipment	<u>(1,650)</u>	<u>(4,779)</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>\$ 7,686</u>	 <u>\$ 77,700</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	 <u>\$ -</u>	 <u>\$ -</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 \$ 50,283	 \$ 78,812
 CASH, BEGINNING OF YEAR	 <u>204,767</u>	 <u>125,955</u>
 CASH, END OF YEAR	 <u><u>\$ 255,050</u></u>	 <u><u>\$ 204,767</u></u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. NATURE OF ACTIVITIES**

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**Basis of Presentation**

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use of that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

**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 more than \$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:

Equipment and Furniture	3-7 years
Website	3 years

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

### **Expense Allocations**

The costs of providing program and supporting services have been summarized on a functional basis in Statements of Activities and in the Statements of Functional Expenses. Accordingly, costs have been allocated between the program services and the supporting services in a direct functional method, when applicable, and on the basis of proportional use of the service provided.

### **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.

### Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

### 3. CHANGE IN ACCOUNTING PRINCIPLE

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.

The changes have the following effect on net assets at December 31, 2017:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 447,574	\$ -
Net assets without donor restrictions	<u>-</u>	<u>447,574</u>
Total net assets	<u>\$ 447,574</u>	<u>\$ 447,574</u>

**4. FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis at December 31, 2018 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>\$ 579,254</u>	<u>\$ 168,726</u>	<u>\$ 410,528</u>	<u>\$ -</u>

Fair values of assets measured on a recurring basis at December 31, 2017 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>\$ 622,997</u>	<u>\$ 473,447</u>	<u>\$ 149,550</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.

**5. INVESTMENTS**

The Organization invested in the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 20,992	\$ 22,023
Equity Securities	147,734	451,424
Exchange Traded Products	<u>410,528</u>	<u>\$ 149,550</u>
	<u>\$ 579,254</u>	<u>\$ 622,997</u>

Investment income is composed of the following for the years 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Dividend and Interest Income	\$ 11,888	\$ 9,733
Unrealized Gains (Losses)	(48,352)	23,918
Realized Gains (Losses)	48	6,529
Realized Gain in Investment in Real Estate Company	27,311	7,735
Investment Fee Expense	<u>(7,352)</u>	<u>(4,729)</u>
Total Investment Income (Loss)	<u>\$ (16,457)</u>	<u>\$ 43,186</u>

## 6. 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, 2018 and 2017, the Organization did not have cash balances exceeding the federally insured limits.

## 7. INVESTMENT IN REAL ESTATE COMPANY

Since 1993, the Organization has had an investment in Spectrum, LLC, a real estate limited liability company, accounted for on the equity method. The Organization originally invested \$150,000, later increased to \$191,640. At December 31, 2018 and 2017, the 13.89% investment in Spectrum, LLC is recorded at \$(154,921) and \$(168,335), respectively. Summary financial information of Spectrum, LLC as of and for the year ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Assets	\$ 1,427,484	\$ 1,413,483
Liabilities	\$ 1,908,449	\$ 1,985,742
Revenues	\$ 859,459	\$ 780,208
Net Income	\$ 668,167	\$ 50,428

## 8. 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.



**9. 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 had three consecutive one-year terms from March 1, 2017 to February 29, 2020. The monthly rental payments were \$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 required additional rent consisting of a proportionate share of taxes and operating expenses, which approximates \$242 per month and is adjusted annually.

The lessor relocated the Organization within the same building in December 2018 to a new suite. The lease was amended to reflect the change in term and location. The new lease term is from January 1, 2019 to February 29, 2020. Monthly rent is \$1,747 to February 2019 and \$1,800 from March 1, 2019 to February 29, 2020. Other terms of the original lease are still in effect.

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

<u>Year Ended</u>	<u>Amount</u>
12/31/2019	\$ 21,494
12/31/2020	<u>3,600</u>
Total	<u>\$ 25,094</u>

**10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following are the Organization's financial assets as of the balance sheet date reduced by amounts not available for general use within one year:

Financial Assets at December 31, 2018:

Cash	\$ 255,050
Investments	579,254
Accounts Receivable	<u>2,480</u>
Total Financial Assets	\$ 836,784

Less: amount not available to be used withing on year:

Net Assets with Donor Restrictions	<u>-</u>
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Financial Assets available to meet general expenditures over the next twelve months	<u>\$ 836,784</u>
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The Organization regularly monitors the availability of resources required to meet its operating needs and commitments, while also striving to maximize the investment of its available funds. In addition to the financial assets available to meet general expenditures over the next twelve months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover the general expenditures of the planned workshops and related administration costs.

The Organization has planned for stable revenue streams with its workshop programs and has no anticipated changes in expenditures. The Organization maintains sufficient reserves to provide reasonable assurance that all commitments will continue to be met, ensuring the sustainability of the Organization.

## **11. EVALUATION OF SUBSEQUENT EVENTS**

Subsequent events have been considered through July 9, 2019, which was the date the financial statements were available to be issued.