

Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

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

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

October 9, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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 ROHLF & ASSOCIATES, LTD.
Northbrook, Illinois

AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents	\$ 311,469	\$ 276,042
Investments	682,182	558,262
Accounts Receivable	-	2,480
Prepaid Expenses	22,795	19,149
Property and Equipment:		
Furniture and Equipment	14,123	14,123
Website	<u>1,650</u>	<u>1,650</u>
	15,773	15,773
Less: Accumulated Depreciation	<u>(12,725)</u>	<u>(11,219)</u>
Total Property and Equipment	<u>3,048</u>	<u>4,554</u>
Other Assets:		
Investment in Real Estate Company	(158,518)	(154,921)
Security Deposit	<u>1,696</u>	<u>1,696</u>
Total Assets	<u><u>\$ 862,672</u></u>	<u><u>\$ 707,262</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 1,325	\$ 2,930
Income Taxes Payable	-	4,621
Accrued Vacation Pay	18,098	16,662
Deferred Revenues	<u>196,010</u>	<u>182,630</u>
Total Liabilities	<u>215,433</u>	<u>206,843</u>
Net Assets		
Without Donor Restrictions	<u>647,239</u>	<u>500,419</u>
Total Net Assets	<u>647,239</u>	<u>500,419</u>
Total Liabilities and Net Assets	<u><u>\$ 862,672</u></u>	<u><u>\$ 707,262</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions:		
Revenues and Gains:		
Workshops	\$ 462,090	\$ 506,610
Investment Income (Loss), net of investment expenses of \$7,241 in 2019 and \$7,352 in 2018	133,935	(16,457)
Miscellaneous Income	16	24
Total Revenues and Gains Without Donor Restrictions	<u>\$ 596,041</u>	<u>\$ 490,177</u>
Expenses:		
Program Services	\$ 360,930	\$ 347,274
Supporting Services		
Management and General	88,291	90,058
Total Expenses	<u>\$ 449,221</u>	<u>\$ 437,332</u>
 Increase in Net Assets Without Donor Restrictions	 \$ 146,820	 \$ 52,845
 Net Assets at Beginning of Year	 <u>500,419</u>	 <u>447,574</u>
 Net Assets at End of Year	 <u><u>\$ 647,239</u></u>	 <u><u>\$ 500,419</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, 2019 AND 2018

	Program	Management and General	2019 Total
Compensation and Related Expenses:			
Compensation	\$ 47,221	\$ 21,215	\$ 68,436
Payroll Taxes	3,537	1,589	5,126
	<u>50,758</u>	<u>22,804</u>	<u>73,562</u>
Professional Fees and Contract Services	8,772	33,676	42,448
Workshops	196,440	-	196,440
Communications	4,755	-	4,755
Computer Expenses	3,381	-	3,381
Publications	8,856	-	8,856
Professional Writing	23,638	-	23,638
Law Library and Subscriptions	7,124	-	7,124
Office Supplies and Expenses	-	2,600	2,600
Postage and Shipping	10,016	-	10,016
Occupancy	17,077	7,672	24,749
Insurance	25,252	284	25,536
Travel Expenses	4,861	-	4,861
Fees and Service Charges	-	13,089	13,089
Income Taxes	-	6,660	6,660
Total Expenses Before Depreciation	<u>\$ 360,930</u>	<u>\$ 86,785</u>	<u>\$ 447,715</u>
Depreciation	-	1,506	1,506
TOTAL EXPENSES	<u><u>\$ 360,930</u></u>	<u><u>\$ 88,291</u></u>	<u><u>\$ 449,221</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, 2019 AND 2018 (CONTINUED)

	<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
TOTAL EXPENSES	<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 CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 146,820	\$ 52,845
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	1,506	1,024
Realized Gains on Marketable Securities	(7,350)	(6,191)
Unrealized (Gains) Losses on Marketable Securities	(103,223)	54,495
Realized Gains in Investment in Real Estate Company	(16,416)	(27,311)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	2,480	8,934
Prepaid Expenses	(3,646)	3,123
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,605)	(1,579)
Income Taxes Payable	(4,621)	4,621
Accrued Vacation Pay	1,436	(26,244)
Deferred Revenues	<u>13,380</u>	<u>(21,120)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 28,761</u>	 <u>\$ 42,597</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Distributions From Investment in Real Estate Company	\$ 20,013	\$ 13,898
Sales (Purchases) of Investments	(13,347)	16,430
Purchase of Equipment	<u>-</u>	<u>(1,650)</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 <u>\$ 6,666</u>	 <u>\$ 28,678</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	 <u>\$ -</u>	 <u>\$ -</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 \$ 35,427	 \$ 71,275
 CASH, BEGINNING OF YEAR	 <u>276,042</u>	 <u>204,767</u>
 CASH, END OF YEAR	 <u><u>\$ 311,469</u></u>	 <u><u>\$ 276,042</u></u>

See accompanying notes and independent auditor's report.

**AMERICANS FOR EFFECTIVE LAW ENFORCEMENT, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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

Revenue and Revenue Recognition

The Organization recognizes revenue as it satisfies a performance obligation by transferring control over a product or a service to a customer. Revenue is measured at the transaction price, which is based on the amount of consideration that the Organization expects to receive in exchange for transferring the promised good or service to the customer. Program service fees received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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.

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 files U.S. federal and Illinois state information returns. The federal and state informational tax returns for tax fiscal year 2017, 2018, and 2019 can be subject to examinations by tax authorities, generally for three years from the date of filing.

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.

3. CHANGES IN ACCOUNTING PRINCIPLES

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB ASC Topic 605, Revenue Recognition, and most industry-specific guidance. When adopted, the amendments in ASU must be applied using one of two retrospective methods. ASU 2014-09 was effective for nonpublic entities for annual periods beginning after December 15, 2018. The Organization adopted Topic 606 on a modified retrospective basis as of January 1, 2019 to contracts that were not completed at the date of the initial application. There were no cumulative adjustments required at the adoption date and no significant changes in the method of revenue recognition as a result of adoption.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as a contribution (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update were effective for annual financial statements issued for fiscal years beginning after December 15, 2018, for transactions in which the entity services as the resource recipient. The adoption of this standard had no significant impact on the Organization and did not require a change in accounting policies and procedures.

4. INVESTMENTS

The Organization invested in the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equity Securities	465,165	\$ 147,734
Exchange Traded Products	<u>217,017</u>	<u>410,528</u>
	<u>\$ 682,182</u>	<u>\$ 558,262</u>

Investment income is composed of the following for the years 2019 and 2018:

	2019	2018
Dividend and Interest Income	\$ 14,187	\$ 11,888
Unrealized Gains (Losses)	103,223	(48,352)
Realized Gains	7,350	48
Realized Gain in Investment in Real Estate Company	16,416	27,311
Investment Fee Expense	<u>(7,241)</u>	<u>(7,352)</u>
Total Investment Income	<u>\$ 133,935</u>	<u>\$ (16,457)</u>

5. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2019 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)
Equity Securities	\$ 465,165	\$ 465,165	\$ -
Exchange Traded Products	<u>217,017</u>	<u>-</u>	<u>217,017</u>
	<u>\$ 682,182</u>	<u>\$ 465,165</u>	<u>\$ 217,017</u>

Fair values of assets measured on a recurring basis at December 31, 2018 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)
Equity Securities	\$ 147,734	\$ 147,734	\$ -
Exchange Traded Products	<u>410,528</u>	<u>-</u>	<u>410,528</u>
	<u>\$ 558,262</u>	<u>\$ 147,734</u>	<u>\$ 410,528</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.

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, the Organization did not have cash balances exceeding the federally insured limits. At December 31, 2019, the Organization's cash balances exceeded the insured limits by \$46,946.

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, 2019 and 2018, the 13.89% investment in Spectrum, LLC is recorded at \$(158,518) and \$(154,921), respectively. Summary financial information of Spectrum, LLC as of and for the year ended December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Assets	\$ 1,347,912	\$ 1,427,484
Liabilities	\$ 1,859,981	\$ 1,908,449
Revenues	\$ 851,977	\$ 859,459
Net Income	\$ 739,081	\$ 668,167

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 and \$1,747 from March 2018 to December 2018.

The lessor relocated the Organization to a new suite within the same building in December 2018. The lease was amended to reflect the change in term and location. The new lease term was from January 1, 2019 to February 29, 2020. Monthly rent was \$1,747 to February 2019 and \$1,800 from March 1, 2019 to February 29, 2020. Other terms of the original lease were still in effect. The Organization did not renew the lease in 2020. Employees moved to remote office locations in February 2020.

10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

Financial Assets at December 31:

	2019	2018
Cash	\$ 311,469	\$ 276,042
Investments	682,182	558,262
Accounts Receivable	<u>-</u>	<u>2,480</u>
Total Financial Assets	\$ 993,651	\$ 836,784

Less: amount not available to be used within one year:

Net Assets with Donor Restrictions	<u>-</u>	<u>-</u>
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Financial Assets available to meet general expenditures over the next twelve months	<u>\$ 993,651</u>	<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 workshops and webinars and related administration costs.

The Organization maintains sufficient reserves to provide reasonable assurance that all commitments will continue to be met, ensuring the sustainability of the Organization.

11. SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused economic disruption through mandated and voluntary closings of businesses, schools, and organizations. The Board of Directors and management have been actively monitoring the events and circumstances surrounding the spread of COVID-19 with their primary concern being the health and wellness of the program participants, staff and volunteers.

Due to the pandemic, the planned May 2020 conference was canceled. The October 2020 conference will be held in a virtual format. A new monthly webinar program has commenced in 2020, which has been offered as an individual fee or a subscription series.

A Paycheck Protection Program (PPP) loan was received in April 2020, helping to continue the compensation of employees. The loan has a two-year term. The first six months has a deferral of the principal and interest payments. Interest is a 1% per year of the loan. The PPP loan has the potential to be forgiven, if all the criteria for expenditures of the loan are met.

There is considerable uncertainty around the duration of the pandemic and its impact on the Organization. In alignment with the Governor of Illinois' Stay-at-Home order, the Organization will comply with restricting physical gatherings with each phase of Restore Illinois. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

12. EVALUATION OF SUBSEQUENT EVENTS

Subsequent events have been considered through October 9, 2020, which was the date the financial statements were available to be issued.