

Americans for Effective Law Enforcement, Inc.

Audited Financial Statements

Years Ended December 31, 2013 (Audited) and 2012 (Reviewed)

Americans for Effective Law Enforcement, Inc.

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December 31, 2012 (Reviewed)

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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 financial statements of Americans for Effective Law Enforcement, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year 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 assessment of the risks of material misstatement of the financial statements, whether due from 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The accompanying 2012 financial statements of Americans for Effective Law Enforcement, Inc. were previously reviewed by us, and we stated that we were not aware of any material modifications that should have been made to those statements in order for them to be in conformity with accounting principles generally accepted in the United States of America in our report dated May 30, 2013. But, we have not performed any procedures in connection with that review engagement since that date.

SULLIVAN AND JOHNSON, LTD.

October 21, 2014

Americans for Effective Law Enforcement, Inc.

Comparative Statements of Financial Position

December 31, 2013 (Audited) and December 31, 2012 (Reviewed)

| | 2013 | 2012 |
|---|--------------------------|--------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 122,002 | \$ 90,737 |
| Marketable securities | 153,031 | 120,465 |
| Accounts receivable | 8,745 | 16,390 |
| Prepaid expenses | 13,831 | 16,831 |
| Total Current Assets | <u>297,609</u> | <u>244,423</u> |
| Property and Equipment | | |
| Building and improvements | 565,634 | 565,634 |
| Furniture and equipment | 104,859 | 104,859 |
| | 670,493 | 670,493 |
| Less: accumulated depreciation | <u>(338,508)</u> | <u>(324,383)</u> |
| Total Net Property and Equipment | <u>331,985</u> | <u>346,109</u> |
| Other Assets | | |
| Investment - partnership | <u>(146,940)</u> | <u>(148,776)</u> |
| Total Other Assets | <u>(146,940)</u> | <u>(148,776)</u> |
| TOTAL ASSETS | <u>\$ 482,655</u> | <u>\$ 441,756</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Americans for Effective Law Enforcement, Inc.

Comparative Statements of Financial Position

December 31, 2013 (Audited) and December 31, 2012 (Reviewed)

| | 2013 | 2012 |
|---|--------------------------|--------------------------|
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 15,716 | \$ 4,921 |
| Accrued real estate taxes | 19,300 | 14,182 |
| Accrued vacation | 58,565 | 53,273 |
| Income taxes payable | 1,659 | 1,053 |
| Deferred revenue | 92,445 | 55,160 |
| Total Current Liabilities | <u>187,686</u> | <u>128,589</u> |
| Total Liabilities | <u>187,686</u> | <u>128,589</u> |
| Net Assets | | |
| Unrestricted net assets | 294,969 | 313,167 |
| Total Net Assets | <u>294,969</u> | <u>313,167</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 482,655</u> | <u>\$ 441,756</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Americans for Effective Law Enforcement, Inc.

Comparative Statements of Activities

For the Years Ended December 31, 2013 (Audited) and December 31, 2012 (Reviewed)

| | 2013 | 2012 |
|--|----------------|----------------|
| REVENUES | | |
| Workshops (net of discounts) | \$ 371,663 | \$ 286,599 |
| Investment income | 2,838 | 4,121 |
| Realized gains (losses) on marketable securities | 12,461 | 17,441 |
| Unrealized gains (losses) on marketable securities | 19,541 | 6,226 |
| Investment gain (loss) - partnership | 12,666 | 8,424 |
| | <u>419,168</u> | <u>322,811</u> |
| EXPENSES | | |
| Workshops | 140,649 | 100,114 |
| Salaries and wages | 88,617 | 79,008 |
| Payroll taxes | 6,405 | 6,338 |
| Building maintenance | 2,948 | - |
| Computer expense | 3,264 | 4,463 |
| Depreciation | 14,124 | 14,124 |
| Insurance | 42,741 | 51,656 |
| Investment management fees | 2,493 | 3,987 |
| Law library and subscriptions | 11,948 | 11,980 |
| Miscellaneous | 14 | 28 |
| Office supplies | 2,089 | 7,024 |
| Outside services | 20,383 | 16,545 |
| Postage and shipping | 15,586 | 11,576 |
| Professional fees | 10,938 | 12,117 |
| Professional writing | 15,420 | 15,420 |
| Publications | 8,640 | 8,640 |
| Real estate taxes | 24,420 | 15,409 |
| Taxes and service charges | 13,597 | 15,835 |
| Telephone | 5,037 | 5,532 |
| Travel and entertainment | 3,466 | 4,285 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Americans for Effective Law Enforcement, Inc.

Comparative Statements of Activities

For the Years Ended December 31, 2013 (Audited) and December 31, 2012 (Reviewed)

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Utilities | 4,588 | 4,910 |
| TOTAL EXPENSES | 437,367 | 388,991 |
| CHANGE IN UNRESTRICTED NET ASSETS | (18,199) | (66,181) |
| NET ASSETS AT BEGINNING OF YEAR | 313,167 | 379,348 |
| NET ASSETS AS OF END OF YEAR | \$ 294,969 | \$ 313,167 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Americans for Effective Law Enforcement, Inc.

Comparative Statements of Cash Flows

For the Years Ended December 31, 2013 (Audited) and December 31, 2012 (Reviewed)

| | 2013 | 2012 |
|--|--------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (18,199) | \$ (66,181) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 14,124 | 14,124 |
| Realized losses (gains) on marketable securities | (12,461) | (17,441) |
| Unrealized losses (gains) on marketable securities | (19,541) | (6,226) |
| Investment loss (gain) - partnership | (12,666) | (8,424) |
| (Increase) decrease in: | | |
| Accounts receivable | 7,645 | (3,575) |
| Prepaid expenses | 3,000 | (8,443) |
| Increase (decrease) in: | | |
| Accounts payable | 10,795 | (12,278) |
| Deferred revenue | 37,285 | (11,680) |
| Other liabilities | 11,006 | (1,745) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>20,989</u> | <u>(121,868)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment partnership distributions | 10,840 | 4,864 |
| Purchase of marketable securities | (140,514) | (76,288) |
| Proceeds from sale of marketable securities | 139,950 | 197,674 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>10,276</u> | <u>126,250</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| | - | - |
| NET CASH FLOW PROVIDED (USED) BY FINANCING ACTIVITIES | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>31,265</u> | <u>4,383</u> |
| Cash and cash equivalents as of beginning of the year | 90,737 | 86,354 |
| CASH AND CASH EQUIVALENTS AS OF END OF YEAR | <u>\$ 122,002</u> | <u>\$ 90,737</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Americans for Effective Law Enforcement, Inc. (AELE) maintains a national legal research center to assist law enforcement agencies. They 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 law enforcement issues.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with generally accepted accounting principles and accordingly reflect all significant receivables, payables, and other liabilities.

The net assets of the organization are all classified as unrestricted, which represents the portion of expendable net assets that are available for operations.

Use of 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.

Impact on Accounting and Reporting of New Pronouncements

The financial accounting and reporting principles currently adopted by AELE which affect reported amounts, presentations and related disclosures are subject to change from time to time based on new pronouncement and/or rules issued by various governmental agencies. New pronouncements not yet in effect as of December 31, 2013, are not expected to have any significant impact on AELE's financial position and results of operations.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Fair Value Measurements

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, fair value is defined as a market-based measurement, not an entity-specific measurement. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the assets or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability either occurs in the principal market (or in its absence, the most advantageous market) for the asset or liability.

For some assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information might not be available. When a price for an identical asset and liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimize the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, a reporting entity's intention to hold an asset or settle or otherwise fulfill a liability is not relevant when measuring fair value.

Cash Equivalents and Concentrations of Custodial Risk

Cash equivalents are considered to be highly liquid depository accounts with a maturity of less than 90 days. Under the Federal bailout program, the FDIC announced that, effective November 15, 2008, all transactional and non-interest bearing bank accounts are fully guaranteed regardless of balance until December 31, 2013. In addition, all interest-bearing accounts are fully insured up to \$250,000.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Investments

AELE accounts for investments in marketable securities at their fair values as of the date of the Statement of Financial Position. Realized and unrealized gains and losses are included in the change in net assets for the period.

Accounts Receivable

The accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and write off all balances they feel are uncollectible amounts. This direct write-off method does not produce results that are materially different than the allowance for doubtful accounts method.

Property and Equipment

Property and equipment are capitalized at cost. It is AELE's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Furniture and equipment is being depreciated over estimated useful lives of three to seven years using a straight-line method, with a half of a year's depreciation recognized in the years of acquisition and disposal. Building and improvements are being depreciated over estimated useful lives of five to forty years using the straight-line method. Depreciation expense for the years ended December 31, 2013 and 2012 was \$14,124 and \$14,124, respectively.

Deferred Revenue

Deferred revenue is shown in the statements of financial position. These amounts are advanced receipts of workshop fees applicable to future periods.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Tax-Exempt Status

The Internal Revenue Service has issued a determination letter that AELE is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, AELE is generally exempt from federal and state income taxes. In additions, AELE has been classified as an organization other than a private foundation under Section 509(a).

Income Tax Matters

Effective January 1, 2010, AELE adopted ASC 740-10-50-15, Accounting for Uncertainty in Income Taxes, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.

AELE has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdiction where it operates. AELE believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on AELE's financial condition, results of operations, or cash flows. Accordingly, AELE has not recorded any reserves, or related accruals for interest and penalties for uncertain tax positions at December 31, 2013.

Income tax returns filed by AELE are subject to examination by tax authorities until May 15, 2017.

AELE files Form 990, Information Return of an Exempt Organization with the Federal government. AELE also files federal Form 990-T and Illinois Form 990-T to report unrelated business income from the investment partnership partially owned by AELE (see Note 5). The Organization also files an information return with the Illinois Attorney General's office.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Subsequent Events

Management has reviewed subsequent events and transactions which occurred after December 31, 2013 through the date of the accountant's review report on these financial statements, which is the date that the financial statements were available for release. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with accounting principles generally accepted in the United States. Management has also determined that there are no non-recognized subsequent events which require additional disclosure in order for these financial statements to not be misleading.

NOTE 2 – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). An exit price valuation will include margins for risk even if they are not observable. As the Organization is released from risk, the margins for risk will also be released through net realized capital gains (losses) in net income. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 2 – FAIR VALUE MEASUREMENTS, *Continued*

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques:

- Market approach – prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business);
- Cost approach – amount that would be required to replace the service capacity of an asset (i.e., current replacement cost);
- Income approach – techniques that convert future amounts to a single present amount based on current market expectations about those future amounts (including present value techniques, option-pricing models, and lattice models).

The asset's and liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 2 – FAIR VALUE MEASUREMENTS, *Continued*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2013.

Cash and cash equivalents: Valued at stated closing amount.

Common stocks: Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the Organization's investments and the amounts reported in the balance sheet and the statement of income and comprehensive income.

Management reviews for other than temporary declines in accordance with the requirements of fair value measurements. The Organization's investments in mutual funds consist primarily of investments in exchange-traded debt and equity securities. Within the fund balance certain individual investments may have fair values measured below cost. The severity of any impairment and the duration of any impairment correlate with current market conditions. Based upon the near-

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 2 – FAIR VALUE MEASUREMENTS, *Continued*

term prospects of the issue of any of those securities in relation to the severity and duration of the impairment, and based upon the Organization's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization does not consider those investments to be other-than-temporary impaired at December 31, 2013.

The following financial instruments are carried at fair value in the Organization's financial statements: marketable securities. These fair value disclosures include information regarding the valuation of the Organization's investments as of December 31, 2013:

| | Cost | Fair Value on a Recurring Basis | | | Level 3 |
|--------------------------------|-------------------|---------------------------------|-------------------|-------------|-------------|
| | | Fair Value Total | Level 1 | Level 2 | |
| Available for sale securities: | | | | | |
| Marketable equity securities | \$ 118,217 | \$ 152,340 | \$ 152,340 | \$ - | \$ - |
| | <u>\$ 118,217</u> | <u>\$ 152,340</u> | <u>\$ 152,340</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE 3 – CONCENTRATION OF CUSTODIAL RISK

AELE considers its checking and money market accounts to be cash and cash equivalents. As of December 31, 2013 and 2012, the Organization's uninsured cash balances totaled \$0 and \$0, respectively.

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 4 – MARKETABLE SECURITIES

The Organization's marketable securities consist of equity securities. As of December 31, 2013 and 2012, the Organization had unrealized gains (losses) on these securities as follows:

| | <u>2013</u> | <u>2012</u> |
|------------------------|------------------|------------------|
| Market value | \$ 152,340 | \$ 120,465 |
| Original cost | <u>118,217</u> | <u>104,058</u> |
| Unrealized gain (loss) | <u>\$ 34,123</u> | <u>\$ 16,407</u> |

NOTE 5 – BUILDING PURCHASE

In August 2000, AELE purchased a building in Park Ridge, Illinois for its own exclusive use for \$495,000 in cash. AELE is required to pay real estate taxes as they are regularly assessed. Real estate taxes amounting to \$19,301 and \$14,182 have been accrued for the years ended December 31, 2013 and 2012, respectively.

NOTE 6 – INVESTMENT – PARTNERSHIP

In 1993, AELE 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, 2013 and 2012, the book value of the Organization's 13.89% interest amounted to \$(146,940) and \$(148,776), respectively. A summary of financial information of Spectrum, LLC as of December 31, 2013 and 2012 is shown below:

| | <u>2013</u> | <u>2012</u> |
|-----------------|--------------|--------------|
| Net assets | \$ 1,845,322 | \$ 1,883,533 |
| Net liabilities | 2,239,687 | 2,291,114 |
| Net sales | 871,744 | 873,280 |
| Net income | 91,216 | 60,493 |

Americans for Effective Law Enforcement, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 (Audited) and
December 31, 2012 (Reviewed)

NOTE 7 – COMPENSATED ABSENCES

AELE has a vesting vacation policy for its full-time employees. The amounts of existing vacation time remaining as of December 31, 2013 and 2012 were \$58,565 and \$53,273, respectively.

NOTE 8 – POSTRETIREMENT PLAN

AELE 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 AELE 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 AELE 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. AELE 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.