



**FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2012 and 2011

AAA FOUNDATION FOR TRAFFIC SAFETY
For the Years Ended December 31, 2012 and 2011

Table of Contents	Page
Independent Auditors' Report.....	1
Financial Statements:	
Statements of financial Position	3
Statements of Activities	4
Statements of Cash Flows.....	5
Notes to Financial Statements	6
Supplementary Information:	
Schedules of Program Services.....	19
Schedules of Supporting Services.....	20



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INDEPENDENT AUDITORS' REPORT

**Board of Directors
AAA Foundation for Traffic Safety
Washington, DC**

We have audited the accompanying financial statements of AAA Foundation for Traffic Safety, a nonprofit organization, which comprise the statements of financial position as of December 31, 2012 and 2011, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 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 AAA Foundation for Traffic Safety as of December 31, 2012 and 2011, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the AAA Foundation for Traffic Safety taken as a whole. The supplementary schedules of program services and supporting services on pages 18-19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of AAA Foundation for Traffic Safety's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DeLeon & Stang

**DeLeon & Stang, CPAs
Gaithersburg, Maryland
March 20, 2013**

AAA FOUNDATION FOR TRAFFIC SAFETY
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 337,684	\$ 304,629
Investments, at fair value	13,948,125	11,674,991
Accounts receivable	267,089	337,010
Pledge endowment receivable	20,000	337,000
Inventory	41,344	47,784
Prepaid expenses and other assets	1,713	24,309
Furniture and equipment, net of accumulated depreciation of \$190,232 in 2012 and \$182,845 in 2011	12,513	22,505
Total assets	\$ 14,628,468	\$ 12,748,228
LIABILITIES AND NET ASSETS		
<u>Liabilities:</u>		
Accounts payable and accrued expenses	\$ 246,373	\$ 394,921
Accrued pension and post retirement liability	159,677	249,918
Total liabilities	406,050	644,839
<u>Net Assets:</u>		
Net assets, unrestricted	4,423,392	2,278,999
Net assets, unrestricted, Board designated for endowment	3,030,000	3,030,000
Net assets, unrestricted	7,453,392	5,308,999
Net assets, temporarily restricted	230,379	255,743
Net assets, permanently restricted for endowment	6,538,647	6,538,647
Net assets, restricted	6,769,026	6,794,390
Total net assets	14,222,418	12,103,389
Total liabilities and net assets	\$ 14,628,468	\$ 12,748,228

AAA FOUNDATION FOR TRAFFIC SAFETY
Statements of Activities
For the Years Ended December 31, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Revenue and support:								
Contributions from AAA affiliated organizations and others	\$ 3,081,450	\$ 391,363	\$ -	\$ 3,472,813	\$ 2,290,380	\$ 279,882	\$ -	\$ 2,570,262
Amortization of discount on pledges receivable	-	-	-	-	-	-	6,689	6,689
Sales of videos, guides and other	64,937	-	-	64,937	107,574	-	-	107,574
Investment (loss) income	1,898,171	-	-	1,898,171	(489,590)	-	-	(489,590)
Net assets released from restrictions	416,727	(416,727)	-	-	293,419	(293,419)	-	-
Total revenue and support	5,461,285	(25,364)	-	5,435,921	2,201,783	(13,537)	6,689	2,194,935
Expenses:								
Program services:								
Research	2,123,170	-	-	2,123,170	1,864,731	-	-	1,864,731
Public education	726,564	-	-	726,564	748,341	-	-	748,341
Product sales	132,439	-	-	132,439	155,501	-	-	155,501
Total program services	2,982,173	-	-	2,982,173	2,768,573	-	-	2,768,573
Supporting services:								
General and administrative	216,437	-	-	216,437	384,648	-	-	384,648
Fundraising	118,282	-	-	118,282	107,931	-	-	107,931
Total supporting services	334,719	-	-	334,719	492,579	-	-	492,579
Total expenses	3,316,892	-	-	3,316,892	3,261,152	-	-	3,261,152
Change in net assets	2,144,393	(25,364)	-	2,119,029	(1,059,369)	(13,537)	6,689	(1,066,217)
Net assets, beginning of year	5,308,999	255,743	6,538,647	12,103,389	6,368,368	269,280	6,531,958	13,169,606
Net assets, end of year	<u>\$ 7,453,392</u>	<u>\$ 230,379</u>	<u>\$ 6,538,647</u>	<u>\$ 14,222,418</u>	<u>\$ 5,308,999</u>	<u>\$ 255,743</u>	<u>\$ 6,538,647</u>	<u>\$ 12,103,389</u>

AAA FOUNDATION FOR TRAFFIC SAFETY
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
<u>Cash Flows From Operating Activities:</u>		
(Decreased) increase in net assets	\$ 2,119,029	\$ (1,066,217)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	13,890	16,000
Realized (gain) loss on investments	(5,097)	(286,393)
Unrealized (gain) loss on investments	(1,459,569)	1,198,209
Decrease (increase) in net accounts receivable	69,921	(28,388)
Decrease in pledge endowment receivable	317,000	984,709
Decrease in inventories	6,440	17,706
Decrease in prepaid expenses and other assets	22,596	14,106
Increase (decrease) in accounts payable and accrued expenses	(148,548)	235,414
(Decrease) increase in accrued pension liability	(90,241)	58,820
Decrease (increase) in endowment contribution discount	-	(6,689)
Total adjustments	(1,273,608)	2,203,494
Net cash provided by operating activities	845,421	1,137,277
<u>Cash Flows From Investing Activities:</u>		
(Purchases) of investments, net of sales	(808,468)	(1,200,545)
(Purchases) of fixed assets	(3,898)	(1,334)
Net cash used in investing activities	(812,366)	(1,201,879)
Net increase (decrease) in cash and cash equivalents	33,055	(64,602)
Cash and cash equivalents at beginning of year	304,629	369,231
Cash and cash equivalents at end of year	\$ 337,684	\$ 304,629

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements
For the Years Ended December 31, 2012 and 2011

NOTE 1 - PURPOSE OF THE ORGANIZATION

The AAA Foundation for Traffic Safety (the Foundation) was established in 1947 to prevent traffic deaths and injuries through research and education. The Foundation is a nonprofit 501(c)(3) charitable organization and is supported by voluntary contributions from individual AAA members; from AAA-affiliated insurance companies; and from others.

Since 2002, the Foundation has placed increased emphasis on two areas: enhancing collaboration with other organizations and increasing the real-world impact of its activities. To that end, it has re-energized the research and development advisory committee to select candidate research projects for funding. It has also increased its public outreach and educational efforts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the financial statements are described below:

Basis of Presentation

The accounts are maintained in accordance with the principles of net asset accounting, whereby resources are classified into net asset classes established according to the nature, purpose and restrictions placed by donors on the use of such resources. Accordingly, all financial transactions have been recorded and reported by net asset classes as follows:

- *Unrestricted:* Net assets that are not subject to donor-imposed restrictions.
- *Temporarily Restricted:* Funds subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.
- *Permanently Restricted:* Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

In 2007 the Board established a Board designated endowment fund established to set aside funds for future operations. The balance was \$3,030,000 as of December 31, 2012 and 2011.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable income tax regulations of the District of Columbia. No provision for income taxes has been established, as the Foundation has no unrelated business activity. The Foundation has determined that there are no uncertain tax positions which require accrual or disclosure under FASB Staff Position FIN No. 48. Federal and state tax returns may be subject to audit for three years after filing, hence the Foundation's tax returns for 2009 are open to tax examination.

Cash and Cash Equivalents

The Foundation considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of money market and overnight investment accounts.

Investments

Investments are presented in the statements of financial position at fair value. Gains and losses on investments, including changes in fair value, are reported in the statements of activities as increases or decreases in unrestricted net assets, unless their use is restricted by the donor. Currently, no restrictions on investment income have been imposed by donors.

The fair values of investments are determined by utilizing quoted market prices on active markets (Level 1) for identical investments.

Accounts Receivable

Accounts receivable are due under normal trade terms requiring payment within 30 days of the invoice date. Accounts receivable are stated at the amount billed. Account balances over 90 days are considered delinquent and, unless strong mitigating factors exist, an allowance for bad debts is established. At December 31, 2012 and 2011, there were no accounts in delinquent status, hence no allowance for bad debts was deemed necessary.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable are recorded at their estimated net realizable value. Pledges consist of annual or periodic pledges and those related to an endowment campaign. Annual, periodic and endowment pledges are expected to be collected within one year.

Inventory

Inventory consists of videos, tapes, and guides and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Original video and CD-ROM production costs are considered period costs and are included in current projects' expenditures. Subsequent incremental costs to complete and reproduce the videos are capitalized as inventory.

Furniture and Equipment

The Foundation capitalizes all expenditures for furniture, equipment and automobiles in excess of \$500, these items are recorded at cost. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

Furniture	7 years
Office equipment	5 years
Automobiles	5 years

Contributions

Contributions are recorded at fair value as revenue when promises to give are received. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue. The Foundation receives voluntary contributions principally from affiliated organizations that include the American Automobile Association (AAA), AAA motor clubs and individual AAA club members.

The Foundation receives an in-kind contribution of office space from AAA. The Foundation has recorded the fair value of the office space of \$233,200 and \$227,200 as contribution revenue and within program and general and administrative expense in the accompanying statements of activities for each of the years ended December 31, 2012 and 2011, respectively.

The Foundation receives in-kind contributions for investment management and broker fees for investments held at Prime, Buchholtz & Associates, Inc. The Foundation has recorded the fair value of these fees of \$50,000 as contribution revenue within program and general and administrative expenses in the accompanying statements of activities for the year ended December 31, 2012.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The cost of providing various program are summarized on a functional basis in the statements of activities and their details are reported in the schedules of program services and schedules of supporting services.

Subsequent Events

The financial statements have been evaluated by management for subsequent events requiring disclosure through March 20, 2013, the date the financial statements were available for issuance.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to enhance comparability with the 2012 presentation.

NOTE 3 - INVESTMENTS

The cost and fair value of investments at December 31, 2012 and 2011 are as follows:

	2012		
	Cost	Fair Value	Unrealized Gains
Money market funds	\$ 9,331	\$ 9,331	\$ -
Corporate bond and fixed income mutual funds	3,051,990	3,130,282	78,292
Common stocks and stock mutual funds	<u>9,908,884</u>	<u>10,808,511</u>	<u>899,627</u>
Total investments	<u>\$ 12,970,205</u>	<u>\$ 13,948,124</u>	<u>\$ 977,919</u>
	2011		
	Cost	Fair Value	Unrealized Losses
Money market funds	\$ 9,331	\$ 9,331	\$ -
Corporate bond and fixed income mutual funds	2,636,610	2,611,662	(24,948)
Common stocks and stock mutual funds	<u>9,504,580</u>	<u>9,053,998</u>	<u>(450,582)</u>
Total investments	<u>\$ 12,150,521</u>	<u>\$ 11,674,991</u>	<u>\$ (475,530)</u>

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 3 - INVESTMENTS (Continued)

Investment income for the years ended December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 342,417	\$ 422,226
Realized gains (losses)	96,148	286,393
Unrealized (losses) gains	<u>1,459,569</u>	<u>(1,198,209)</u>
Investment (losses) income	<u>\$ 1,898,134</u>	<u>\$ (489,590)</u>

NOTE 4 - FURNITURE AND EQUIPMENT

At December 31, 2012 and 2011, furniture and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 174,745	\$ 177,350
Automobile	<u>28,000</u>	<u>28,000</u>
	202,745	205,350
Less: accumulated depreciation	<u>(190,232)</u>	<u>(182,845)</u>
Furniture and equipment, net	<u>\$ 12,513</u>	<u>\$ 22,505</u>

Depreciation expense was \$13,890 and \$16,000 in 2012 and 2011, respectively.

NOTE 5 - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were \$230,379 and \$255,743, respectively. Permanently restricted net assets were \$6,538,647 at December 31, 2012 and 2011, respectively. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

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AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 6 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS

Pension Plan

Substantially all employees of the Foundation are covered under the AAA and subsidiary companies' noncontributory defined benefit retirement plan (the Plan). Under this arrangement, AAA and the Foundation have the same benefit plan design, but each organization is responsible for its own funding and has a separate benefit trust. The Foundation's funding policy is to make the minimum annual contribution required by applicable laws and regulations. Contributions are intended to provide not only for benefits attributed to service but also for those to earned in the future. In 2012 and 2011, the Foundation made contributions of \$24,012 and \$100,000 respectively, to the Plan. As of December 31, 2009, the Foundation decided to curtail the Plan and restrict participation to current participants only, and existing participants will not accrue any additional benefits.

Year Ended December 31,

	<u>2012</u>	<u>2011</u>
Projected benefit obligation	\$ 1,310,241	\$ 1,288,393
Fair value of plan assets	<u>1,185,905</u>	<u>1,084,932</u>
Funded (deficit) status	<u>\$ (124,336)</u>	<u>\$ (203,461)</u>
Accumulated benefit obligation	\$ 1,310,241	\$ 1,288,393
Employer contributions	\$ 24,012	\$ 100,000
Participant contributions	\$ -	\$ -
Benefits paid	\$ 47,087	\$ 47,087

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AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 6 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS (Continued)

Amounts recognized in the Statements of Financial Position at December 31:

	<u>2012</u>	<u>2011</u>
Pension liability	\$ 124,336	\$ 203,461

Amounts recognized in the Statements of Activities at December 31:

	<u>2012</u>	<u>2011</u>
Net (profit) loss	\$ (49,632)	\$ 159,910
Amortization of prior service cost (credit) and net loss	(1,951)	13,348
Amortization of recognition of net gain	(35,896)	(28,574)
Net periodic benefit cost	<u>32,366</u>	<u>28,383</u>
Total	<u>\$ (55,113)</u>	<u>\$ 173,067</u>

The following assumptions were used in accounting for the pension plan:

Weighted average assumptions used to determine pension benefit obligations at December 31:

	<u>2012</u>	<u>2011</u>
Discount rate	4.04%	4.52%
Rate of compensation increase	N/A	N/A

Weighted average assumptions used to determine net periodic pension benefit costs at December 31:

Discount rate	4.52%	5.32%
Expected return on plan assets	6.00%	6.75%
Rate of compensation increase	N/A	N/A

The expected rate of return on pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The target allocations for plan assets are 10% equity securities, 80% corporate bonds, and 10% other for the years ended December 31, 2012 and 2011, respectively.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 6 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS (Continued)

The fair values of the Foundation's pension plan assets by class are as follows:

	December 31, 2012			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity securities	\$ 372,333	\$ -	\$ -	\$ 372,333
Debt securities	549,339	-	-	549,339
Cash and cash equivalents	-	12,377	-	12,377
Real estate	-	-	56,306	56,306
Other	66,401	129,149	-	195,550
Total	\$ 988,073	\$ 141,526	\$ 56,306	\$ 1,185,905

	December 31, 2011			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Equity securities	\$ 249,531	\$ 95,835	\$ -	\$ 345,366
Debt securities	477,735	-	-	477,735
Cash and cash equivalents	-	16,082	-	16,082
Real estate	-	-	63,795	63,795
Other	58,538	123,416	-	181,954
Total	\$ 785,804	\$ 235,333	\$ 63,795	\$ 1,084,932

The Foundation expects to contribute \$5,120 to the pension plan in 2013. No plan assets are expected to be returned to the Foundation during 2013.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 6 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS (Continued)

The following benefits are expected to be paid:

<u>Year Ending December 31,</u>	<u>Pension</u>	<u>Post Retirement</u>
2013	\$ 78,343	\$ 5,120
2014	82,565	5,451
2015	85,169	5,738
2016	84,933	5,838
2017	85,545	5,770
Thereafter	429,960	26,270

Post-Retirement Benefits Plan

In addition, employees hired prior to January 1, 2002 are covered under the AAA and subsidiary companies' contributory defined benefit postretirement plan (the Retirement Plan) that provides certain health care and life insurance benefits for retired employees. All of the Foundation's employees who retire under the provisions of the Retirement Plan are eligible for those benefits. The Retirement Plan is funded on a pay-as-you-go basis.

Significant assumptions used in the actuarial computation for 2012 and 2011 are shown on page 11:

	<u>2012</u>	<u>2011</u>
Funded status	\$ (35,341)	\$ (46,457)

NOTE 7 - 403(b) THRIFT PLAN

The Foundation has a defined contribution pension plan in which the Foundation matches employees' contributions. There is no minimum age requirement to participate in the plan, and there is no minimum service requirement to make salary reduction contributions. After one year of service, employees are eligible to receive employer matching contributions on employee deferrals up to 6% of total compensation. The Foundation also provides a base contribution of 4% to all current employees who actively participate in the plan. Employees are partially vested after three years of service and fully vested after five years of service with respect to the employer's contributions. Employees are immediately vested with respect to the employee's contributions. The Foundation's contributions to this plan were \$104,328 and \$53,042 during the years ended December 31, 2012 and 2011, respectively. Plan assets were \$1,285,685 and \$1,036,142 at December 31, 2012 and 2011, respectively.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<u>Balance January 1:</u>	\$ 255,743	\$ 269,280
<u>Contributions:</u>		
iRap & US Rap	186,542	133,325
Driver Education (DE) Evaluations	109,615	112,999
Parent Coaching	66,666	-
Genesse County Road	15,000	-
Charles M. Hayes Safety Patrol Program	9,985	-
Network for Good	1,955	-
Edwin S. Soforenko Fund	1,600	1,600
Audi of America	-	30,000
University of Waterloo	-	1,958
Project expense released from restrictions	<u>(416,727)</u>	<u>(293,419)</u>
Total temporarily restricted net assets	<u>\$ 230,379</u>	<u>\$ 255,743</u>

NOTE 9- CONCENTRATION OF CONTRIBUTIONS

The Foundation receives a significant portion of contributions from affiliated organizations that include the American Automobile Association (AAA) and AAA motor clubs. The Foundation received over 86% of total contributions from these affiliates as of December 31, 2012

NOTE 10- ENDOWMENT FUNDS

Permanently restricted net assets at December 31, 2012 and 2011 consist of an endowment fund. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift it to be held and invested by the Foundation indefinitely and income from the fund is to be expended to fund the Foundation's general operations and various programs. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 10- ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund. If applicable, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The spending policies of the Foundation
- The Foundation's investment policies

Investment Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to, preserve capital, obtain growth from capital appreciation, and receive total annual returns that exceed the appropriate market index rate of return by between .5 and 1%.

AAA FOUNDATION FOR TRAFFIC SAFETY
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2012 and 2011

NOTE 10- ENDOWMENT FUNDS (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the investment strategy is to emphasize total return in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation current asset allocation for the endowment funds targets a composition of 45% domestic equities, 20% non-U.S. equities, 5% emerging equities, 15% core bonds, 10% inflation hedging, and 5% non-U.S. government bonds. The Investment Committee, in coordination with the Foundation's Treasurer and President, shall monitor financial progress against the investment policy targets and make asset allocation decisions as required.

Endowment Spending Policy

The Foundation allocates the investment income generated by the endowment fund each year for research project, public outreach and educational efforts.

Endowment Composition

The composition and changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Net assets, permanently restricted for endowment, January 1:	\$ 6,538,647	\$ 6,531,958
Amortization of discount on pledges receivable	-	6,689
Investment (loss) income	873,159	(264,379)
Amounts appropriated from (to) unrestricted net assets	<u>(873,159)</u>	<u>264,379</u>
Net assets, permanently restricted for endowment, December 31:	<u>\$ 6,538,647</u>	<u>\$ 6,538,647</u>

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SUPPLEMENTARY INFORMATION

AAA FOUNDATION FOR TRAFFIC SAFETY
Schedules of Program Services
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Research:		
Cognitive distraction	\$ 269,304	\$ 295,104
Exposure study	230,000	-
MIT tech matrix	200,000	-
iRAP phase I	186,542	133,325
Road assessment program	159,498	128,914
Parent coaching	148,437	98,959
DE evaluation phase II	81,888	251,559
Safety culture study	50,775	-
18-21 GDL	43,300	-
License renewal policies	25,000	-
General research	10,510	50,999
Roadwise Rx	6,250	-
POSIT Science	-	200,000
Safety culture index	-	49,370
Learner stage of GDL	-	46,515
Eval noteworthy initiatives	-	35,000
Sub-total	<u>1,411,504</u>	<u>1,289,745</u>
Allocation of general and administrative expenses	<u>711,666</u>	<u>574,986</u>
Total	<u>\$ 2,123,170</u>	<u>\$ 1,864,731</u>
Public education:		
Project Outreach	\$ 90,384	\$ 182,903
Public Education and giveaways	60,966	21,115
General Outreach	80,807	78,164
Contribution Expense	8,100	12,105
Sub-total	<u>240,257</u>	<u>294,287</u>
Allocation of general and administrative expenses	<u>486,307</u>	<u>454,054</u>
Total	<u>\$ 726,564</u>	<u>\$ 748,341</u>
Product Sales:		
Videos	\$ 60,305	\$ 87,482
Bad debt (recovery)	<u>(381)</u>	<u>(1,910)</u>
Sub-total	59,924	85,572
Allocation of general and administrative expenses	<u>72,515</u>	<u>69,929</u>
Total	<u>\$ 132,439</u>	<u>\$ 155,501</u>

AAA FOUNDATION FOR TRAFFIC SAFETY
Schedules of Supporting Services
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
General and administrative:		
Salaries	\$ 799,930	\$ 695,173
Employee fringe benefits	237,528	221,255
Office rent	233,200	227,200
Pension and post retirement expense	(66,229)	158,820
Accounting	65,621	72,017
Payroll taxes	57,335	49,020
Investment management	50,020	-
Travel and meetings - staff	47,599	27,928
Travel and meetings - committee	21,056	20,495
Auditing	17,950	17,450
Travel and meetings - board	16,738	7,493
Depreciation	13,890	16,000
Telephone	9,676	6,898
Dues and subscriptions	8,910	3,959
Legal services	7,152	15,074
Stationery and office supplies	6,632	6,103
Training	6,027	1,009
Postage and delivery	5,407	3,247
Auto operating expenses	3,181	3,662
Equipment - repairs and maintenance	1,193	744
Computer supplies and services	625	549
Consultant fees	565	-
Local taxes	244	157
Sub-total	<u>1,544,250</u>	<u>1,554,253</u>
Allocation of general and administrative expenses	<u>(1,327,813)</u>	<u>(1,169,605)</u>
Total	<u>\$ 216,437</u>	<u>\$ 384,648</u>
Fundraising:		
Fundraising	\$ 59,769	\$ 37,295
Charitable Golf Outing	<u>1,188</u>	<u>-</u>
Sub-total	60,957	37,295
Allocation of general and administrative expenses	<u>57,325</u>	<u>70,636</u>
Total	<u>\$ 118,282</u>	<u>\$ 107,931</u>



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Allen P. DeLeon, CPA, P.C.
Richard C. Stang, CPA, P.C.
Jeanie Price, AAAPM

March 20, 2013

To The Board of Directors and Audit Committee:

AAA Foundation for Traffic Safety

607 14th Street, NW, Suite 201

Washington, DC 20005

We have audited the financial statements of AAA Foundation for Traffic Safety for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 20, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 22, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by AAA Foundation for Traffic Safety are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by AAA Foundation for Traffic Safety during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation expense, which is based on management's estimate of the useful lives of capital assets. Management's estimate of accrued pension and post-retirement liability, which is based on a third-party actuarial report.

We evaluated the key factors and assumptions used to develop the estimates, and determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of defined benefit obligations in Note 6 to the financial statements, because of their anticipated impact on the future cash flows of the Foundation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 20, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to AAA Foundation for Traffic Safety's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, the only such consultation was the actuary in connection with the pension and post-retirement liability.

Other Audit Findings or Issues

Changes In Accounting Standards

In an effort to promote worldwide accounting uniformity, the Financial Accounting Standards Board (FASB) is contemplating mandatory changes to U.S. accounting standards. These changes include:

- A complete overhaul of the balance sheet and income statement, which will require them to have a presentation similar to the statement of cash flows;
- Revisions to the percentage-of-completion method of accounting;
- Capitalization of all leases;
- Fair value accounting for most financial instruments, including loans and receivables;
- Reclassification of many equity instruments to liabilities;
- Comparative financial statements would be required instead of optional
- Consolidation rules would be altered

If these changes come into effect as currently designed, they would be applicable to all business entities—both publicly-held and privately-owned. Implementation of these changes is expected to involve significant costs. The ramifications would require major changes to accounting systems, and may necessitate the restructuring of existing loan covenants and buy-sell agreements. The FASB expects to render a final decision on some of these items by the end of 2011; however their guidance on transitions generally includes a retrospective application. Private companies may be granted an extended implementation period. We will continue to monitor the situation and apprise management of the specific effects these changes will require as the FASB's decisions are finalized.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as AAA Foundation for Traffic Safety's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors, the Audit Committee and management of AAA Foundation for Traffic Safety and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

DeLeon & Stang

DeLeon & Stang, CPAs

Certified Public Accountants & Business Advisors



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Richard C. Stang, CPA, P.C.
Jeanie Price, AAAPM

March 20, 2013

SAS No. 115 LETTER

The Board of Directors and Management
AAA Foundation for Traffic Safety
607 14th Street, NW, Suite 201
Washington, DC 20005

Dear Members of the Board and Management:

In planning and performing our audit of the financial statements of *AAA Foundation for Traffic Safety* as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered *AAA Foundation for Traffic Safety's* internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of *AAA Foundation for Traffic Safety's* internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We do not consider the following deficiency in *AAA Foundation for Traffic Safety's* internal control to be significant deficiency, but an other matter important enough to merit attention.

OTHER MATTER

1. Pension Fund Investment Allocations

Targeted allocations for investments as of December 31, 2012 were 10% equity securities, 80% corporate bonds, and 10% other investments. As the plan was significantly underweighted to fixed income securities when the new asset allocations were adopted, plan fiduciaries approved a transition plan that increases the allocation to fixed income as the plans' funded status improves. That transition plan is not referenced in the approved investment policy.

AAA Foundation for Traffic Safety
SAS No. 115 Letter
March 20, 2013

We recommend the plan fiduciaries consider documenting the transition plan as part of the Plan's formal investment policy.

* * *

This communication is intended solely for the information and use of management, the Board of Directors, and others within *AAA Foundation for Traffic Safety*, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours,

DeLeon & Stang

DeLeon & Stang, CPAs

Certified Public Accountants & Advisors