# AAA Foundation for Traffic Safety

Financial Statements
December 31, 2016

**Contents**

RSM US LLP

**Independent Auditor's Report**

To the Board of Trustees
AAA Foundation for Traffic Safety

**Report on the Financial Statements**
We have audited the accompanying financial statements of AAA Foundation for Traffic Safety, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 AAA Foundation for Traffic Safety as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters – Report on Supplementary Information**
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 to 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.

RSM US LLP

Orlando, Florida
March 29, 2017

**AAA Foundation for Traffic Safety**

**Statements of Financial Position**
**December 31, 2016 and 2015**

| | | **2016** | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **$** | **1,342,790** | $ | 819,912 |
| Investments, at fair value | | **19,031,063** | | 17,977,424 |
| Contributions and accounts receivable | | **1,000,939** | | 1,268,536 |
| Inventories | | **1,628** | | 49,340 |
| Prepaid expenses | | **657** | | 1,432 |
| Furniture and equipment, net | | **11,561** | | 17,820 |
| **Total assets** | **$** | **21,388,638** | $ | 20,134,464 |
| **Liabilities and Net Assets** | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | **$** | **2,180,998** | $ | 2,708,976 |
| Accrued pension and post retirement liability | | **145,514** | | 207,402 |
| **Total liabilities** | | **2,326,512** | | 2,916,378 |
| Commitments and contingencies (Note 2) | | | | |
| Net assets: | | | | |
| Unrestricted: | | | | |
| Undesignated | | **5,162,879** | | 3,345,970 |
| Board designated for endowment | | **7,200,000** | | 7,200,000 |
| **Total unrestricted net assets** | | **12,362,879** | | 10,545,970 |
| Temporarily restricted | | **160,600** | | 133,469 |
| Permanently restricted | | **6,538,647** | | 6,538,647 |
| **Total net assets** | | **19,062,126** | | 17,218,086 |
| **Total liabilities and net assets** | **$** | **21,388,638** | $ | 20,134,464 |

See notes to financial statements.

## AAA Foundation for Traffic Safety

## Statements of Activities
## Years Ended December 31, 2016 and 2015

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues and support: | | | | | | | | |
| Contributions from AAA affiliated organizations and others | **$ 7,585,661** | **$ 132,776** | **$ -** | **$ 7,718,437** | $ 7,047,165 | $ 1,349 | $ - | $ 7,048,514 |
| Sales of videos, guides and other | **30,284** | **-** | **-** | **30,284** | 37,857 | - | - | 37,857 |
| Investment income (loss) | **1,153,968** | **-** | **-** | **1,153,968** | (411,520) | - | - | (411,520) |
| Net assets released from restrictions | **105,645** | **(105,645)** | **-** | **-** | 5,624 | (5,624) | - | - |
| **Total revenues and support** | **8,875,558** | **27,131** | **-** | **8,902,689** | 6,679,126 | (4,275) | - | 6,674,851 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Research | **5,215,697** | **-** | **-** | **5,215,697** | 5,966,894 | - | - | 5,966,894 |
| Public education | **958,553** | **-** | **-** | **958,553** | 752,256 | - | - | 752,256 |
| Product costs | **138,913** | **-** | **-** | **138,913** | 94,810 | - | - | 94,810 |
| **Total program services** | **6,313,163** | **-** | **-** | **6,313,163** | 6,813,960 | - | - | 6,813,960 |
| Supporting services: | | | | | | | | |
| General and administrative | **669,245** | **-** | **-** | **669,245** | 445,835 | - | - | 445,835 |
| Fundraising | **76,241** | **-** | **-** | **76,241** | 67,892 | - | - | 67,892 |
| **Total supporting services** | **745,486** | **-** | **-** | **745,486** | 513,727 | - | - | 513,727 |
| **Total expenses** | **7,058,649** | **-** | **-** | **7,058,649** | 7,327,687 | - | - | 7,327,687 |
| | | | | | | | | - |
| **Change in net assets** | **1,816,909** | **27,131** | **-** | **1,844,040** | (648,561) | (4,275) | - | (652,836) |
| Net assets: | | | | | | | | |
| Beginning of year | **10,545,970** | **133,469** | **6,538,647** | **17,218,086** | 11,194,531 | 137,744 | 6,538,647 | 17,870,922 |
| End of year | **$ 12,362,879** | **$ 160,600** | **$ 6,538,647** | **$ 19,062,126** | $ 10,545,970 | $ 133,469 | $ 6,538,647 | $ 17,218,086 |

See notes to financial statements.

**AAA Foundation for Traffic Safety**

**Statements of Cash Flows**
**Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 1,844,040** | $ (652,836) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | **8,460** | 8,099 |
| Realized losses (gains) on investments | **123,847** | (88,354) |
| Unrealized (gains) losses on investments | **(904,143)** | 882,738 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Contributions and accounts receivable | **267,597** | (958,448) |
| Inventories | **47,712** | 4,204 |
| Prepaid expenses | **775** | (106) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | **(527,977)** | 1,208,691 |
| Accrued pension and post retirement liability | **(61,888)** | 13,759 |
| **Net cash provided by operating activities** | **798,423** | 417,747 |
| Cash flows from investing activities: | | |
| Purchases of investments | **(3,188,831)** | (1,598,033) |
| Proceeds from sales of investments | **2,915,488** | 1,015,191 |
| Purchases of furniture and equipment | **(2,202)** | (11,904) |
| **Net cash used in investing activities** | **(275,545)** | (594,746) |
| **Net increase (decrease) in cash and cash equivalents** | **522,878** | (176,999) |
| Cash and cash equivalents: | | |
| Beginning | **819,912** | 996,911 |
| Ending | **$ 1,342,790** | $ 819,912 |

See notes to financial statements.

## Note 1. Nature of Organization and Significant Accounting Policies

**Nature of 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 the American Automobile Association (AAA), individual AAA members, AAA motor clubs and others.

A summary of the Foundation's significant accounting policies follows:

**Basis of presentation:** The accompanying financial statements have been prepared on the accrual basis of accounting. A not-for-profit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> ***Unrestricted net assets:*** – Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Trustees. In 2007, the Board of Trustees established a board designated endowment fund for future operations. As of December 31, 2016 and 2015, $7,200,000, had been designated as endowment by the Board of Trustees for this purpose.
>
> ***Temporarily restricted net assets:*** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.
>
> ***Permanently restricted net assets:*** – Net assets subject to donor-imposed stipulations that they be permanently maintained by the Foundation.

**Use of estimates:** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under applicable income tax regulations of the District of Columbia. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements.

The Foundation follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions, which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Foundation files income tax returns in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to U.S. federal income tax examinations by tax authorities for years before December 31, 2013.

**Functional allocation of expenses:** The cost of providing various programs and supporting services have been summarized on a functional basis in the statements of activities with related details reported in the Schedules of Program Services and Schedules of Supporting Services in the accompanying Supplementary Information. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

**Cash and cash equivalents:** The Foundation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Investments and investment income:** Investments are reported at fair value (see Note 2). Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds received and the cost of the investment sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividend income is recognized when earned. Gains and losses on investments are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

**Contributions and accounts receivable:** Contributions and accounts receivable are unsecured and due under normal trade terms requiring payment within 30 days of the invoice date. Contributions and 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, 2016 and 2015, there were no material accounts in delinquent status; therefore, no allowance for doubtful accounts was deemed necessary.

**Inventories:** Inventories consist of videos, tapes and guides and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

**Furniture and equipment:** Furniture and equipment are recorded at cost, if purchased or at fair value on the date received, if donated. The Foundation capitalizes all furniture, equipment and automobiles with a value in excess of $1,500 and software with an excess value of $5,000. Depreciation of furniture and equipment is computed using the straight-line method of accounting over the estimated useful lives of the assets, which range from 3 to 10 years.

**Contributions:** Contributions are recorded at fair value. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue. The Foundation receives voluntary contributions, a significant portion of which come from the American Automobile Association (AAA), AAA motor clubs, CAA motor clubs and individual AAA club members.

The Foundation receives in-kind contributions for investment management and broker fees for investments held at Prime, Buchholz & Associates, Inc. The Foundation has recorded the fair value of these fees of $40,000 as contribution revenue and within program and general and administrative expenses in the accompanying statements of activities for the years ended December 31, 2016 and 2015.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The Foundation receives in-kind contributions from AAA for office space and administrative services as presented in the table below. The Foundation has recorded the fair value of the in-kind services as contribution revenue and within program and general and administrative expenses in the accompanying statements of activities for the years ended December 31, 2016 and 2015, as follows:

| | 2016 | 2015 |
|---|---|---|
| Office space | $ 239,400 | $ 237,648 |
| Accounting | 65,220 | 57,800 |
| Public affairs | 585,476 | 360,000 |
| Corporate counsel | 24,600 | 36,000 |
| Information security | 10,000 | 7,400 |
| Human resources | 15,948 | 4,104 |
| Internal audit | 24,400 | 25,000 |
| Other | 3,186 | 10,968 |
| Total in-kind contributions from AAA | $ 968,230 | $ 738,920 |

**Recent accounting pronouncements:** The Financial Accounting Standards Board (FASB) has issued certain new or modifications to, or interpretations of, existing accounting guidance. The Foundation has considered the new un-adopted guidance and does not believe that any other new or modified guidance will have a material impact on the Foundation's reported financial position or activities in the near-term.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. The amendments in ASU 2016-14 are effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In May 2015, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For nonpublic entities, the amendments in ASU 2015-07 are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted and the amendments in ASU 2015-07 should be applied retrospectively to all periods presented. As ASU 2015-07 only amends and eliminates certain disclosures, the Foundation does not anticipate its adoption will have a material impact on its financial statements.

**Subsequent events:** The financial statements have been evaluated by management for subsequent events requiring disclosure through March 29, 2017, the date the financial statements were available for issuance.

## Note 2. Investments and Fair Value Measurements

The fair value of investments at December 31, 2016 and 2015, are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Debt securities: | | |
| U.S. government corporations and agencies | $ 12,373 | $ 12,320 |
| Total marketable debt securities | 12,373 | 12,320 |
| Marketable equity securities: | | |
| Mutual funds – U.S. equities | 7,754,190 | 7,275,852 |
| Mutual funds – foreign securities | 3,738,221 | 3,625,624 |
| Mutual funds – global fixed income | 3,068,696 | 2,642,337 |
| Mutual funds – real return | 2,581,894 | 2,458,365 |
| Private investment fund | 1,875,689 | 1,962,926 |
| Total marketable equity securities | 19,018,690 | 17,965,104 |
| Total investments | $ 19,031,063 | $ 17,977,424 |

Investment income (loss) for the years ended December 31, 2016 and 2015, consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Interest and dividend income | $ 373,672 | $ 382,864 |
| Realized (losses) gains | (123,847) | 88,354 |
| Unrealized gains (losses) | 904,143 | (882,738) |
| Investment income (loss) | $ 1,153,968 | $ (411,520) |

The Foundation follows accounting standards relating to fair value measurements, which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards relating to fair value measurements establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Investments recorded at fair value in the accompanying statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by this guidance, are as follows:

**Level 1:** Quoted prices for identical instruments in active markets.

**Level 2:** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

**Level 3:** Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

### Note 2. Investments and Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets reported at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

**Level 1:** Shares of registered investment companies (mutual funds) are based on the quoted market price of the fund, which represents the NAV of shares held by the Foundation at year-end. Registered investment companies include money market funds, corporate bond and fixed income mutual funds and equity mutual funds.

**Level 2:** The private investment fund consists of an investment in Drake Capital Offshore Partners II, L.P. (the Partnership), which is a Cayman Islands exempted limited partnership operating as a private investment partnership. The fair value is determined using the NAV per share as a practical expedient. The Partnership is a feeder fund in a master-feeder structure that invests all of its assets in a master fund, Drake Capital Partners II, L.P. (the Master Fund). The performance of the Partnership is entirely dependent on the performance of the Master Fund, which invests in a portfolio of hedge funds. The Partnership records its investment in the Master Fund at fair value, which represents the Partnership's share in the partners' capital of the Master Fund. The Partnership/Master Fund's manager, Drake, has retained SS&C as administrator for the Funds. In this capacity, SS&C maintains the official books and records of the Funds. SS&C independently computes monthly Fund NAVs based on their independent receipt of manager-level performance reports/NAVs and capital account statements for the Master Fund's investment in each fund. Drake's accounting team runs parallel accounting records and Drake and SS&C reconcile any discrepancies at least monthly, prior to releasing Fund performance estimates and the monthly investor NAVs. Limited partners receive audited financial statements annually and unaudited performance reports quarterly during the year. Since the Foundation has the ability to redeem its investment annually with a 90-day notice period, the investment is classified as Level 2.

**Level 3:** As of December 31, 2016 and 2015, there were no investments categorized as Level 3.

## Note 2. Investments and Fair Value Measurements (Continued)

The following table sets forth by class, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of December 31, 2016 and 2015:

| | 2016 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money market securities: | | | | |
| U.S. government corporations and agencies | $ 12,373 | $ 12,373 | $ - | $ - |
| Total money market securities | 12,373 | 12,373 | - | - |
| Marketable equity securities: | | | | |
| Mutual funds – U.S. equities | 7,754,190 | 7,754,190 | - | - |
| Mutual funds – foreign securities | 3,738,221 | 3,738,221 | - | - |
| Mutual funds – global fixed income | 3,068,696 | 3,068,696 | - | - |
| Mutual funds – real return | 2,581,894 | 2,581,894 | - | - |
| Private investment fund | 1,875,689 | - | 1,875,689 | - |
| Total marketable equity securities | 19,018,690 | 17,143,001 | 1,875,689 | - |
| Total investments | $ 19,031,063 | $ 17,155,374 | $ 1,875,689 | $ - |

| | 2015 | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Debt securities: | | | | |
| U.S. government corporations and agencies | $ 12,320 | $ 12,320 | $ - | $ - |
| Total marketable debt securities | 12,320 | 12,320 | - | - |
| Marketable securities: | | | | |
| Mutual funds – U.S. equities | 7,275,852 | 7,275,852 | - | - |
| Mutual funds – foreign securities | 3,625,624 | 3,625,624 | - | - |
| Mutual funds – global fixed income | 2,642,337 | 2,642,337 | - | - |
| Mutual funds – real return | 2,458,365 | 2,458,365 | - | - |
| Private investment fund | 1,962,926 | - | 1,962,926 | - |
| Total marketable equity securities | 17,965,104 | 16,002,178 | 1,962,926 | - |
| Total investments | $ 17,977,424 | $ 16,014,498 | $ 1,962,926 | $ - |

## Note 2. Investments and Fair Value Measurements (Continued)

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 asset during the years ended December 31, 2016 and 2015:

| | 2016 Private Investment Fund Fund | 2015 Private Investment Fund Fund |
|---|---|---|
| Balance at beginning of year | $ - | $ 1,853,398 |
| Purchases | - | - |
| Unrealized gains | - | 109,528 |
| Transfer to Level 2 investments | - | (1,962,926) |
| Balance at end of year | $ - | $ - |

Total unrealized gains reported above are included in investment income on the statements of activities for the years ended December 31, 2016 and 2015.

**Changes in fair value levels:** The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The significance of transfers between levels is evaluated based upon the nature of the financial instruments and size of the transfer relative to total net assets available. For the year ended December 31, 2015, the Foundation reevaluated the liquidity of its investment in the private investment fund and their underlying investments. As a result, the Foundation concluded that this investment is redeemable within the near-term and should be classified as a Level 2 investment. As such, the Foundation transferred $1,962,926 to Level 2 investments as of December 31, 2015. For the year ended December 31, 2016, there were no transfers in or out of Levels 1, 2 or 3.

## Note 2. Investments and Fair Value Measurements (Continued)

The following table sets forth additional disclosures of the Foundation's alternative investment whose fair value is estimated using NAV per share (or its equivalent) as of December 31, 2016 and 2015:

| | Fair Value | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| December 31, 2016: | | | | |
| Private investment fund (a) | $ 1,875,689 | $ - | Subject to 12-month lockout: annually, semi-annually | 90 days |
| December 31, 2015: | | | | |
| Private investment fund (a) | $ 1,962,926 | $ - | Subject to 12-month lockout: annually, semi-annually | 90 days |

a) Private investment fund includes the Drake Capital Offshore Partners II, L.P. The Partnership's investment objective is to achieve attractive risk-adjusted capital grofwth with a low long-term correlation to major market indices by investing in a portfolio of hedge funds or managed accounts. The Partnership's manager believes that the opportunity exists to outperform the broad markets over time and generate consistent absolute returns by actively managing a well-constructed, diversified portfolio of high caliber hedge fund managers. A limited partner has the right, upon 90 days' prior written notice, to withdraw (1) up to 25% of its capital account as of each June 30 and (2) all or any portion of its capital account as of each December 31, provided that each investment by such limited partner (plus or minus any net capital appreciation or depreciation on such investment) may not be withdrawn unless 12 months have elapsed since the date of such investment.

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments and contributions and accounts receivable. Cash accounts are insured by the Federal Deposit Insurance Corporation up to $250,000, subject to regulation. The Foundation's cash balances are placed with high credit quality, federally-insured institutions. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant credit risk as a result of its cash investment policies.

## Note 3. Furniture and Equipment

Furniture and equipment at December 31, 2016 and 2015 are summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| Furniture and equipment | $ 204,901 | $ 202,699 |
| Automobile | - | 28,000 |
| | 204,901 | 230,699 |
| Less accumulated depreciation | (193,340) | (212,879) |
| Furniture and equipment, net | $ 11,561 | $ 17,820 |

Depreciation expense for the years ended December 31, 2016 and 2015, was $8,460 and $8,099, respectively.

## Note 4. Retirement and Post-Retirement Benefit Plans

**Pension plan:** Substantially all employees of the Foundation are covered under the American Automobile Association's 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. The benefits under the pension plan are based on years of service and employee compensation levels. The Foundation's funding policy is to make the minimum annual contribution required by applicable laws and regulations. In 2016 and 2015, the Foundation made no contributions to the Plan. As of December 31, 2009, the Foundation decided to freeze the Plan and restrict participation to current participants only and existing participants will not accrue any additional benefits.

The following table presents a reconciliation of the beginning and ending balances of the benefit obligation, fair value of plan assets and the funded status of the pension plan to the net amounts measured and recognized in the statements of financial position at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Accumulated benefit obligation at end of year | $ 1,230,321 | $ 1,283,098 |
| Change in projected benefit obligation: | | |
| Projected benefit obligation, beginning of year | $ 1,283,098 | $ 1,376,107 |
| Interest cost | 43,575 | 54,532 |
| Actuarial loss (gain) | (24,596) | (75,818) |
| Benefits paid | (71,756) | (71,723) |
| Projected benefit obligation, end of year | 1,230,321 | 1,283,098 |
| Change in fair value of plan assets: | | |
| Fair value of plan assets, beginning of year | 1,115,885 | 1,220,079 |
| Actual return on plan assets | 85,586 | (32,471) |
| Benefits paid | (71,756) | (71,723) |
| Fair value of plan assets, end of year | 1,129,715 | 1,115,885 |
| Unfunded status at end of year | $ (100,606) | $ (167,213) |

| | 2016 | 2015 |
|---|---|---|
| Projected benefit obligation | $ 1,230,321 | $ 1,283,098 |
| Fair value of plan assets | 1,129,715 | 1,115,885 |
| Unfunded status at end of year | $ (100,606) | $ (167,213) |

Amounts recognized in the statements of financial position at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Pension liability | $ 100,606 | $ 167,213 |

**Note 4. Retirement and Post-Retirement Benefit Plans (Continued)**

Amounts recognized in the statements of activities at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Net (gain) loss | $ (54,880) | $ 18,281 |
| Amortization of prior service cost (credit) | (2,527) | (2,527) |
| Amortization of recognition of net gain | (15,552) | (21,114) |
| Net periodic benefit cost | 6,352 | 16,545 |
| Total | $ (66,607) | $ 11,185 |

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

| | 2016 | 2015 |
|---|---|---|
| Weighted average assumptions used to determine pension benefit obligations at December 31: | | |
| Discount rate | 4.15% | 4.47% |
| Rate of compensation increase | N/A | N/A |
| Measurement date | 12/31/16 | 12/31/15 |
| Weighted average assumptions used to determine net periodic pension benefit costs at December 31: | | |
| PBO effective discount rate | 4.45% | 4.06% |
| Expected return on assets | 5.50% | 5.50% |
| 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 30% equity securities and 70% corporate bonds for the years ended December 31, 2016 and 2015.

### Note 4. Retirement and Post-Retirement Benefit Plans (Continued)

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

| | 2016 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Equity securities: | | | | |
| U.S. large-cap equity | $ 140,239 | $ - | $ - | $ 140,239 |
| U.S. small/mid-cap equity | 49,444 | - | - | 49,444 |
| International equity | 56,812 | - | - | 56,812 |
| Fixed income and cash equivalents: | | | | |
| Long-term high quality bond fund | 22,960 | 852,234 | - | 875,194 |
| Cash equivalents | - | 8,026 | - | 8,026 |
| Total | $ 269,455 | $ 860,260 | $ - | $ 1,129,715 |

| | 2015 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Equity securities: | | | | |
| U.S. large-cap equity | $ 145,838 | $ - | $ - | $ 145,838 |
| U.S. small/mid-cap equity | 54,554 | - | - | 54,554 |
| International equity | 79,034 | - | - | 79,034 |
| Fixed income and cash equivalents: | | | | |
| Long-term high quality bond fund | - | 663,532 | - | 663,532 |
| Cash equivalents | - | 5,482 | - | 5,482 |
| Real return investment fund | 35,621 | 19,296 | - | 54,917 |
| Absolute return investment fund | 112,528 | - | - | 112,528 |
| Total | $ 427,575 | $ 688,310 | $ - | $ 1,115,885 |

The following retirement and post-retirement benefits are expected to be paid:

| | Pension | Post Retirement |
|---|---|---|
| Years ending December 31: | | |
| 2017 | $ 80,849 | $ 1,879 |
| 2018 | 78,233 | 3,176 |
| 2019 | 75,216 | 3,134 |
| 2020 | 86,538 | 3,431 |
| 2021 | 83,498 | 2,680 |
| Thereafter | 399,693 | 19,598 |

## Note 4. Retirement and Post-Retirement Benefit Plans (Continued)

**Post-retirement benefit plan:** Employees hired prior to January 1, 2002, are covered under the American Automobile Association's 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.

Amounts recognized in the statements of activities at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Funded deficit status | $ 44,908 | $ 40,189 |

The Foundation expects to contribute $1,879 to the post-retirement plan in 2017.

**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 $58,688 and $64,764 during the years ended December 31, 2016 and 2015, respectively.

## Note 5. Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015, were $160,600 and $133,469, respectively. Permanently restricted net assets were $6,538,647 at December 31, 2016 and 2015. 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.

Temporarily restricted net assets at December 31, 2016 and 2015, are available for research and public education. As of December 31, 2016 and 2015, net assets of $105,654 and $5,624, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

## Note 6. Endowment Funds

Permanently restricted net assets at December 31, 2016 and 2015, consist of an endowment fund. Contributions to the endowment fund are subject to donor restrictions that stipulate the original principal of the gift is to be held and invested by the Foundation indefinitely. Income from the fund may be expended to fund the Foundation's operations and program expenses in accordance with a Board approved spending rate policy. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## Note 6. Endowment Funds (Continued)

**Interpretation of relevant law:** The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 UPMIFA.

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% in large cap equities and 1% in small, mid and international equities.

**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’s current asset allocation for the endowment funds targets a composition of 35% domestic equities, 17% non-U.S. equities, 8% emerging equities, 15% bond funds, 15% inflation hedging and 10% flexible capital (hedge) fund. The Investment Advisory Committee, in coordination with the Foundation’s Treasurer and Executive Director, shall monitor financial progress against the investment policy targets and make asset allocation decisions as required.

**Endowment spending policy:** Investment income generated by the endowment fund each year may be expended to fund the Foundation’s operations and program expenses in accordance with a Board-approved spending rate policy.

## Note 6. Endowment Funds (Continued)

**Endowment composition:** The composition and changes in endowment net assets for the years ended December 31, 2016 and 2015, are as follows:

| | 2016 | 2015 |
|---|---|---|
| Net assets, permanently restricted for endowment, January 1 | $ 6,538,647 | $ 6,538,647 |
| Investment income | 396,478 | (143,443) |
| Amounts appropriated to unrestricted net assets | (396,478) | 143,443 |
| Net assets, permanently restricted for endowment, December 31 | $ 6,538,647 | $ 6,538,647 |

**AAA Foundation for Traffic Safety**

**Schedules of Program Services**
**Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Research: | | |
| Long ROAD Senior Cohort | **$ 1,603,314** | $ 2,549,244 |
| Strayer – Cognitive Distraction | **1,037,734** | 769,500 |
| Santos – American Driving Survey | **375,000** | 375,000 |
| Harwood – Highway Investments | **218,800** | - |
| Dingus – Drowsiness and Distraction Risk | **174,543** | - |
| Hickman – Truck Safety Technology | **168,464** | - |
| Dickerson – Senior Driving Evaluations | **164,623** | 178,164 |
| FTS – Safety Culture Study | **122,960** | 125,245 |
| Goodwin – Parent/Teen Sessions | **111,291** | - |
| Walden – Drug Countermeasures | **110,024** | - |
| Lerner – Accelerating Driving Expertise | **85,348** | 144,000 |
| Dingus – Drowsiness and Distraction Risk | **73,713** | 221,140 |
| Yetter – Judicial/Prosecutorial Training | **58,486** | - |
| Curry – Extending GDL New Jersey | **45,600** | 80,211 |
| Buckley – Extending GDL Michigan | **28,424** | 85,332 |
| Fisher – Accelerating Teen learning | **25,822** | 104,179 |
| General Research | **5,716** | 13,057 |
| Williams – CT Learner Requirement | **4,750** | 14,250 |
| Banta-Green – Cannabis Washington | **-** | 138,347 |
| Sullivan – Driver Assistance Technology | **-** | 112,041 |
| McGehee – Teen Crash Causation | **-** | 100,500 |
| Bagdade – Safety Defects | **-** | 75,000 |
| Logan – Cannabis DRE | **-** | 15,114 |
| Winston – Brookings Recession | **-** | 15,000 |
| FTS – Drugged Data Barriers | **-** | 13,008 |
| **Subtotal** | **4,414,612** | 5,128,332 |
| Allocation of general and administrative expenses | **801,085** | 838,562 |
| **Total** | **$ 5,215,697** | $ 5,966,894 |
| Public education: | | |
| Project outreach | **$ 3,310** | $ 6,458 |
| Public education and giveaways | **5,969** | 38,135 |
| General outreach | **47,273** | 10,500 |
| Contribution expense | **11,000** | 24 |
| **Subtotal** | **67,552** | 55,117 |
| Allocation of general and administrative expenses | **891,001** | 697,139 |
| **Total** | **$ 958,553** | $ 752,256 |
| Product costs: | | |
| Videos | **$ 81,522** | $ 35,039 |
| Bad debt | **550** | 143 |
| **Subtotal** | **82,072** | 35,182 |
| Allocation of general and administrative expenses | **56,841** | 59,628 |
| **Total** | **$ 138,913** | $ 94,810 |

**AAA Foundation for Traffic Safety**

**Schedules of Supporting Services**
**Years Ended December 31, 2016 and 2015**

| | | **2016** | | 2015 |
|---|---|---|---|---|
| General and administrative: | | | | |
| Salaries | **$** | **1,136,740** | $ | 885,881 |
| Miscellaneous in-kind expenses | | **614,611** | | 378,372 |
| Office rent | | **239,400** | | 237,648 |
| Employee fringe benefits | | **145,168** | | 150,752 |
| Payroll taxes | | **80,009** | | 54,382 |
| Accounting | | **66,562** | | 62,355 |
| Investment management | | **50,000** | | 50,000 |
| Auditing | | **44,959** | | 44,992 |
| Travel and meetings – staff | | **32,438** | | 30,428 |
| Legal services | | **24,600** | | 86,453 |
| Miscellaneous | | **16,859** | | - |
| Travel and meetings – board | | **15,457** | | 9,131 |
| Travel and meetings – committee | | **14,425** | | 44,678 |
| Depreciation | | **8,460** | | 8,099 |
| Auto operating expenses | | **8,023** | | 429 |
| Telephone | | **5,194** | | 5,814 |
| Postage and delivery | | **4,366** | | 4,193 |
| Stationery and office supplies | | **4,293** | | 6,515 |
| Consultant fees | | **4,250** | | 5,000 |
| Dues and subscriptions | | **3,388** | | 5,862 |
| Computer supplies and services | | **2,546** | | 2,678 |
| Equipment – repairs and maintenance | | **1,416** | | 1,098 |
| Training | | **974** | | 3,267 |
| Local taxes | | **(54)** | | (30) |
| Pension and post retirement expense | | **(61,888)** | | 13,759 |
| **Subtotal** | | **2,462,196** | | 2,091,756 |
| Allocation of general and administrative expenses | | **(1,792,951)** | | (1,645,921) |
| **Total** | **$** | **669,245** | $ | 445,835 |
| Fundraising | **$** | **32,217** | $ | 17,300 |
| Allocation of general and administrative expenses | | **44,024** | | 50,592 |
| **Total** | **$** | **76,241** | $ | 67,892 |