

# AAA Foundation for Traffic Safety

Financial Statements  
December 31, 2014 and 2013

## Contents

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Independent Auditor's Report	1-2
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Financial Statements	
Statements of financial position	3
Statements of activities	4
Statements of cash flows	5
Notes to financial statements	6-17

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Supplementary Information	
Schedules of program services	18
Schedules of supporting services	19

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## Independent Auditor's Report

To the Board of Trustees  
AAA Foundation for Traffic Safety  
Washington, DC

### 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, 2014 and 2013, 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, 2014 and 2013, 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.

*McGladrey LLP*

Orlando, Florida  
April 28, 2015

**AAA Foundation for Traffic Safety**

**Statements of Financial Position  
December 31, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 996,911	\$ 519,542
Investments, at fair value	18,188,966	16,995,482
Contributions and accounts receivable	310,088	405,237
Inventories	53,544	53,953
Prepaid expenses	1,326	850
Furniture and equipment, net	14,015	20,109
<b>Total assets</b>	<b>\$ 19,564,850</b>	<b>\$ 17,995,173</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,500,285	\$ 870,534
Accrued pension and post retirement liability	193,643	64,900
<b>Total liabilities</b>	<b>1,693,928</b>	<b>935,434</b>
Commitments and Contingencies (Note 5)		
Net Assets		
Unrestricted:		
Undesignated	8,164,531	7,347,857
Board designated for endowment	3,030,000	3,030,000
<b>Total unrestricted net assets</b>	<b>11,194,531</b>	<b>10,377,857</b>
Temporarily restricted	137,744	143,235
Permanently restricted	6,538,647	6,538,647
<b>Total net assets</b>	<b>17,870,922</b>	<b>17,059,739</b>
<b>Total liabilities and net assets</b>	<b>\$ 19,564,850</b>	<b>\$ 17,995,173</b>

See Notes to Financial Statements.

AAA Foundation for Traffic Safety

Statements of Activities

Years Ended December 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support								
Contributions from AAA affiliated organizations and others	\$ 5,822,748	\$ 3,347	\$ -	\$ 5,826,095	\$ 4,121,388	\$ 124,884	\$ -	\$ 4,246,272
Sales of videos, guides and other	47,571	-	-	47,571	45,378	-	-	45,378
Investment income	693,495	-	-	693,495	2,647,571	-	-	2,647,571
Net assets released from restrictions	8,838	(8,838)	-	-	212,028	(212,028)	-	-
<b>Total revenues and support</b>	<b>6,572,652</b>	<b>(5,491)</b>	<b>-</b>	<b>6,567,161</b>	<b>7,026,365</b>	<b>(87,144)</b>	<b>-</b>	<b>6,939,221</b>
Expenses								
Program services:								
Research	4,349,839	-	-	4,349,839	3,291,197	-	-	3,291,197
Public education	736,145	-	-	736,145	484,878	-	-	484,878
Product costs	93,199	-	-	93,199	89,825	-	-	89,825
<b>Total program services</b>	<b>5,179,183</b>	<b>-</b>	<b>-</b>	<b>5,179,183</b>	<b>3,865,900</b>	<b>-</b>	<b>-</b>	<b>3,865,900</b>
Supporting services								
General and administrative	486,212	-	-	486,212	165,272	-	-	165,272
Fundraising	90,583	-	-	90,583	70,728	-	-	70,728
<b>Total supporting services</b>	<b>576,795</b>	<b>-</b>	<b>-</b>	<b>576,795</b>	<b>236,000</b>	<b>-</b>	<b>-</b>	<b>236,000</b>
<b>Total expenses</b>	<b>5,755,978</b>	<b>-</b>	<b>-</b>	<b>5,755,978</b>	<b>4,101,900</b>	<b>-</b>	<b>-</b>	<b>4,101,900</b>
<b>Change in net assets</b>	<b>816,674</b>	<b>(5,491)</b>	<b>-</b>	<b>811,183</b>	<b>2,924,465</b>	<b>(87,144)</b>	<b>-</b>	<b>2,837,321</b>
Net assets, beginning of year	10,377,857	143,235	6,538,647	17,059,739	7,453,392	230,379	6,538,647	14,222,418
Net assets, end of year	\$ 11,194,531	\$ 137,744	\$ 6,538,647	\$ 17,870,922	\$ 10,377,857	\$ 143,235	\$ 6,538,647	\$ 17,059,739

See Notes to Financial Statements.

**AAA Foundation for Traffic Safety**

**Statements of Cash Flows**

**Years Ended December 31, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 811,183	\$ 2,837,321
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,094	8,763
Loss on disposal of furniture and equipment	-	251
Realized losses (gains) on investments	115,785	(530,675)
Unrealized gains on investments	(239,955)	(1,627,240)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Contributions and accounts receivable	95,149	(138,148)
Pledge endowment receivable	-	20,000
Inventories	409	(12,609)
Prepaid expenses	(476)	863
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	629,751	624,161
Accrued pension and post retirement liability	128,743	(94,777)
<b>Net cash provided by operating activities</b>	<b>1,546,683</b>	<b>1,087,910</b>
Cash Flows From Investing Activities		
Purchases of investments	(5,054,011)	(3,239,468)
Proceeds from sales of investments	3,984,697	2,350,026
Purchases of furniture and equipment	-	(16,610)
<b>Net cash used in investing activities</b>	<b>(1,069,314)</b>	<b>(906,052)</b>
<b>Net increase in cash and cash equivalents</b>	<b>477,369</b>	<b>181,858</b>
Cash and Cash Equivalents		
Beginning	519,542	337,684
Ending	<b>\$ 996,911</b>	<b>\$ 519,542</b>

See Notes to Financial Statements.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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#### 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 from 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 on 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 to set aside funds for future operations. The balance was \$3,030,000 as of December 31, 2014 and 2013.

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, 2011.

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

**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.



## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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

**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, 2014 and 2013, there were no 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. 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 and \$50,000 as contribution revenue and within program and general and administrative expenses in the accompanying statements of activities for the years ended December 31, 2014 and 2013, respectively.

The Foundation receives in-kind contributions from AAA for office space and administrative services as presented in the table below. In 2014, additional administrative in-kind services were contributed which included public affairs work, contract and legal review, and internal policies and controls review. 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, 2014 and 2013 as follows:

	2014	2013
Office space	\$ 242,200	\$ 244,000
Accounting	56,000	15,000
Public affairs	327,000	-
Corporate counsel	36,000	-
Information security	7,400	-
Human resources	6,200	-
Internal audit	33,000	-
Other	6,947	-
<b>Total in-kind contributions from AAA</b>	<b>\$ 714,747</b>	<b>\$ 259,000</b>

**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.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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

**Recent accounting pronouncements:** The Financial Accounting Standards Board 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.

**Subsequent events:** The financial statements have been evaluated by management for subsequent events requiring disclosure through April 28, 2015, the date the financial statements were available for issuance.

#### Note 2. Investments and Fair Value Measurements

The fair value of investments at December 31, 2014 and 2013, are summarized as follows:

	2014	2013
Debt securities:		
U.S. government corporations and agencies	\$ 12,297	\$ 9,307
<b>Total marketable debt securities</b>	<u>12,297</u>	<u>9,307</u>
Marketable equity securities:		
Mutual funds – U.S. equities	7,300,769	6,508,093
Mutual funds – foreign securities	3,880,944	4,091,778
Mutual funds – global fixed income	2,662,361	2,470,863
Mutual funds – real return	2,479,197	2,152,440
Private investment fund	1,853,398	1,763,001
<b>Total marketable equity securities</b>	<u>18,176,669</u>	<u>16,986,175</u>
<b>Total investments</b>	<u>\$ 18,188,966</u>	<u>\$ 16,995,482</u>

Investment income for the years ended December 31, 2014 and 2013, consisted of the following:

	2014	2013
Interest and dividend income	\$ 569,325	\$ 489,656
Realized (losses) gains	(115,785)	530,675
Unrealized gains	239,955	1,627,240
<b>Investment income</b>	<u>\$ 693,495</u>	<u>\$ 2,647,571</u>

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.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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

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.

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, 2014 and 2013.

- Level 1 Shares of registered investment companies (mutual funds) are based on the quoted market price of the fund, which represents the net asset value 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 Not applicable.
- Level 3 The private investment fund consists of an investment in Drake Capital Offshore Partners, 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 net asset value (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, L.P. (the Master Fund). The performance of the Partnership, therefore, will be 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. Due to the fact that the Foundation does not have the ability to redeem its investment at NAV in the near term at the measurement date, and that the valuations are independently derived using a net value per share, the investment is classified as Level 3.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

#### 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, 2014 and 2013:

	2014			
	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	\$ 12,297	\$ 12,297	\$ -	\$ -
<b>Total marketable debt securities</b>	<b>12,297</b>	<b>12,297</b>	<b>-</b>	<b>-</b>
Marketable equity securities:				
Mutual funds – U.S. equities	7,300,769	7,300,769	-	-
Mutual funds – foreign securities	3,880,944	3,880,944	-	-
Mutual funds – global fixed income	2,662,361	2,662,361	-	-
Mutual funds – real return	2,479,197	2,479,197	-	-
Private investment fund	1,853,398	-	-	1,853,398
<b>Total marketable equity securities</b>	<b>18,176,669</b>	<b>16,323,271</b>	<b>-</b>	<b>1,853,398</b>
<b>Total investments</b>	<b>\$ 18,188,966</b>	<b>\$ 16,335,568</b>	<b>\$ -</b>	<b>\$ 1,853,398</b>
	2013			
	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	\$ 9,307	\$ 9,307	\$ -	\$ -
<b>Total marketable debt securities</b>	<b>9,307</b>	<b>9,307</b>	<b>-</b>	<b>-</b>
Marketable securities:				
Mutual funds – U.S. equities	6,508,093	6,508,093	-	-
Mutual funds – foreign securities	4,091,778	4,091,778	-	-
Mutual funds – global fixed income	2,470,863	2,470,863	-	-
Mutual funds – real return	2,152,440	2,152,440	-	-
Private investment fund	1,763,001	-	-	1,763,001
<b>Total marketable equity securities</b>	<b>16,986,175</b>	<b>15,223,174</b>	<b>-</b>	<b>1,763,001</b>
<b>Total investments</b>	<b>\$ 16,995,482</b>	<b>\$ 15,232,481</b>	<b>\$ -</b>	<b>\$ 1,763,001</b>

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

#### 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, 2014 and 2013:

	2014 Private Investment Fund	2013 Private Investment Fund
Balance at beginning of year	\$ 1,763,001	\$ -
Purchases	-	1,700,000
Unrealized gains	90,397	63,001
Balance at end of year	<u>\$ 1,853,398</u>	<u>\$ 1,763,001</u>

Total unrealized gains reported above are included in investment income on the statements of activities for the years ended December 31, 2014 and 2013. The amount of the unrealized gains related to its Level 3 investment held at December 31, 2014 and 2013 was \$90,397 and \$63,001, respectively.

**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 years ended December 31, 2014 and 2013, there were no transfers in or out of Levels 1, 2 or 3.

The following table sets forth additional disclosures of the Foundation's alternative investment whose fair value is estimated using net asset value per share (or its equivalent) as of December 31, 2014 and 2013:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
<u>December 31, 2014</u>				
Private investment fund (a)	<u>\$ 1,853,398</u>	<u>\$ -</u>	Subject to 12-month lockout: annually, semi-annually	90 days
<u>December 31, 2013</u>				
Private investment fund (a)	<u>\$ 1,763,001</u>	<u>\$ -</u>	Subject to 12-month lockout: annually, semi-annually	90 days

- a) Private investment fund includes the Drake Capital Offshore Partners, L.P. The Partnership's investment objective is to achieve attractive risk-adjusted capital growth 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.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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#### Note 3. Concentration of Credit Risk

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 (FDIC) 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 4. Furniture and Equipment

Furniture and equipment at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Furniture and equipment	\$ 190,795	\$ 190,795
Automobile	28,000	28,000
	218,795	218,795
Less accumulated depreciation	(204,780)	(198,686)
<b>Furniture and equipment, net</b>	<b>\$ 14,015</b>	<b>\$ 20,109</b>

Depreciation expense for the years ended December 31, 2014 and 2013, was \$6,094 and \$8,763, respectively.

#### Note 5. 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 2014 and 2013, the Foundation made no contributions 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.

During 2014, the Foundation offered a voluntary lump-sum pension payout to eligible former employees that, if accepted, would settle the obligation to them. Based upon the acceptance of that offer by certain employees, \$9,323 was paid from plan assets during the year ended December 31, 2014. Pension settlement charges were not recognized after determining the lump-sum pension payments did not exceed the annual interest and service costs of the pension plan. The Foundation settled \$21,402 of its December 31, 2014 pension obligation, resulting in a liability gain of \$12,079.

The pension plan was amended, effective January 1, 2015, to update the definition of actuarial equivalence. The effect of this plan change was an increase in the benefit obligation by \$5,842 and the creation of a prior service cost base as of December 31, 2014.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

#### Note 5. Retirement and Post-Retirement Benefit Plans (Continued)

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, 2014 and 2013:

	2014	2013
Accumulated benefit obligation at end of year	\$ 1,376,107	\$ 1,198,494
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 1,198,494	\$ 1,310,241
Interest cost	57,251	51,677
Plan amendments	5,842	-
Actuarial loss (gain)	193,171	(95,243)
Benefits paid	(78,651)	(68,181)
Projected benefit obligation, end of year	1,376,107	1,198,494
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	1,164,961	1,185,905
Actual return on plan assets	133,769	47,237
Benefits paid	(78,651)	(68,181)
Fair value of plan assets, end of year	1,220,079	1,164,961
<b>Unfunded status at end of year</b>	<b>\$ (156,028)</b>	<b>\$ (33,533)</b>
	2014	2013
Projected benefit obligation	\$ 1,376,107	\$ 1,198,494
Fair value of plan assets	1,220,079	1,164,961
<b>Unfunded status at end of year</b>	<b>\$ (156,028)</b>	<b>\$ (33,533)</b>

Amounts recognized in the statements of financial position at December 31, 2014 and 2013:

	2014	2013
Pension liability	\$ 156,028	\$ 33,533

Amounts recognized in the statements of activities at December 31, 2014 and 2013:

	2014	2013
Net loss (gain)	\$ 118,560	\$ (82,389)
Prior service cost	5,842	-
Amortization of prior service cost (credit)	(1,951)	(1,951)
Amortization of recognition of net gain	(12,130)	(21,825)
Net periodic benefit cost	12,174	15,362
<b>Total</b>	<b>\$ 122,495</b>	<b>\$ (90,803)</b>

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

#### Note 5. Retirement and Post-Retirement Benefit Plans (Continued)

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

	2014	2013
Weighted average assumptions used to determine pension benefit obligations at December 31:		
Discount rate	4.06%	4.91%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine net periodic pension benefit costs at December 31:		
Discount rate	4.91%	4.04%
Expected return on plan 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 27% equity securities, 54% corporate bonds, and 19% other for the years ended December 31, 2014 and 2013.

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

	2014			
	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	\$ 226,679	\$ -	\$ -	\$ 226,679
U.S. small/mid-cap equity	17,207	-	-	17,207
International equity	74,509	-	-	74,509
Fixed income and cash equivalents:				
Long-term high quality bond fund	28,962	644,813	-	673,775
Cash equivalents	-	21,610	-	21,610
Real return investment fund	40,941	22,014	-	62,955
Absolute return investment fund	95,600	47,744	-	143,344
<b>Total</b>	<b>\$ 483,898</b>	<b>\$ 736,181</b>	<b>\$ -</b>	<b>\$ 1,220,079</b>



## AAA Foundation For Traffic Safety

### Notes to Financial Statements

#### Note 5. Retirement and Post-Retirement Benefit Plans (Continued)

	2013			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equity securities:				
U.S. large-cap equity	\$ 207,230	\$ -	\$ -	\$ 207,230
U.S. small/mid-cap equity	19,313	-	-	19,313
International equity	82,942	-	-	82,942
Fixed income and cash equivalents:				
Long-term high quality bond fund	626,302	-	-	626,302
Cash equivalents	-	13,864	-	13,864
Real return investment fund	46,317	22,594	-	68,911
Absolute return investment fund	96,644	49,755	-	146,399
<b>Total</b>	<b>\$ 1,078,748</b>	<b>\$ 86,213</b>	<b>\$ -</b>	<b>\$ 1,164,961</b>

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

Year Ending December 31,	Pension	Post Retirement
2015	\$ 81,045	\$ 1,518
2016	80,422	1,616
2017	80,860	1,648
2018	80,080	1,674
2019	80,914	1,731
Thereafter	411,986	9,040

**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.

Significant assumptions used in the actuarial computation for 2014 and 2013 are shown on page 14:

	2014	2013
Funded (deficit) status	\$ (37,615)	\$ (31,367)

The Foundation expects to contribute \$1,518 to the post-retirement plan in 2015.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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#### Note 5. Retirement and Post-Retirement Benefit Plans (Continued)

##### 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 \$141,551 and \$145,056 during the years ended December 31, 2014 and 2013, respectively.

#### Note 6. Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013, were \$137,744 and \$143,235, respectively. Permanently restricted net assets were \$6,538,647 at December 31, 2014 and 2013. 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, 2014 and 2013, are available for research and public education. As of December 31, 2014 and 2013, net assets of \$8,838 and \$212,028, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

#### Note 7. Endowment Funds

Permanently restricted net assets at December 31, 2014 and 2013, 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.

**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.

## AAA Foundation For Traffic Safety

### Notes to Financial Statements

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#### Note 7. Endowment Funds (Continued)

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; and
- 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 40.2% domestic equities, 14.4% non-U.S. equities, 7% emerging equities, 14.6% bond funds, 13.6% inflation hedging, and 10.2% flexible capital (hedge) fund. The Investment Advisory 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:** 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.

**Endowment composition:** The composition and changes in endowment net assets for the years ended December 31, 2014 and 2013, are as follows:

	2014	2013
Net assets, permanently restricted for endowment, January 1	\$ 6,538,647	\$ 6,538,647
Investment income	248,828	1,018,596
Amounts appropriated to unrestricted net assets	(248,828)	(1,018,596)
Net assets, permanently restricted for endowment, December 31	<u>\$ 6,538,647</u>	<u>\$ 6,538,647</u>

**AAA Foundation for Traffic Safety**

**Schedules of Program Services  
Years Ended December 31, 2014 and 2013**

	2014	2013
<b>Research:</b>		
Senior Prospective Cohort	\$ 1,716,665	\$ 551,136
Cognitive Distraction Phase III	446,949	-
Exposure Study	378,787	385,320
Cognitive Distraction Phase IIIA	305,470	-
Crash Causation	161,243	202,928
Traffic Safety Culture Index (States)	153,057	-
Cannabis DRE	72,439	-
Safety Culture Study	65,000	58,100
Cannabis - Washington	61,485	-
Extending Graduated Driver Licensing (NC/CA/NJ)	44,829	135,232
Expanding usRAP	41,656	171,723
Brookings Recession Driving Study	33,917	-
General Research	29,338	25,040
Roadwise Online	12,500	12,500
MIT Technology Matrix	9,966	190,000
Cognitive Distraction Phase IIA	5,000	105,370
Cognitive Distraction Phase II	1,405	327,785
Enforcement Studies	210	2,880
iRAP Phase I	-	32,073
Road Assessment Program	-	125,000
Parent Coaching	-	35,828
DE Evaluation Phase II	-	30,000
Roadwise Rx	-	5,500
POSIT Science	-	9,292
LATCH Texas A&M	-	64,995
LATCH Survey	-	2,000
LATCH Tom Rice	-	29,780
<b>Subtotal</b>	<b>3,539,916</b>	<b>2,502,482</b>
Allocation of general and administrative expenses	<b>809,923</b>	<b>788,715</b>
<b>Total</b>	<b>\$ 4,349,839</b>	<b>\$ 3,291,197</b>
<b>Public Education:</b>		
Project outreach	\$ 10,676	\$ 7,877
General outreach	21,967	56,750
Contribution expense	9,000	12,948
Public education and giveaways	4,141	22,773
<b>Subtotal</b>	<b>45,784</b>	<b>100,348</b>
Allocation of general and administrative expenses	<b>690,361</b>	<b>384,530</b>
<b>Total</b>	<b>\$ 736,145</b>	<b>\$ 484,878</b>
<b>Product Costs</b>		
Videos	\$ 33,025	\$ 25,714
Bad debt	110	129
<b>Subtotal</b>	<b>33,135</b>	<b>25,843</b>
Allocation of general and administrative expenses	<b>60,064</b>	<b>63,982</b>
<b>Total</b>	<b>\$ 93,199</b>	<b>\$ 89,825</b>

**AAA Foundation for Traffic Safety**

**Schedules of Supporting Services  
Years Ended December 31, 2014 and 2013**

	2014	2013
<b>General and Administrative:</b>		
Salaries	\$ 856,345	\$ 842,878
Miscellaneous in-kind expenses	344,047	-
Office rent	242,200	244,000
Employee fringe benefits	173,069	157,048
Pension and post retirement expense	128,743	(94,777)
Accounting	60,428	66,999
Payroll taxes	54,381	52,583
External and internal auditing	52,936	18,350
Investment management	50,000	50,000
Legal services	37,100	-
Travel and meetings – staff	36,580	32,045
Travel and meetings – committee	23,391	25,172
Travel and meetings – board	6,787	7,474
Telephone	6,529	5,621
Depreciation	6,094	8,763
Dues and subscriptions	5,261	11,057
Postage and delivery	5,119	3,291
Stationery and office supplies	3,669	5,454
Training	2,625	4,362
Auto operating expenses	2,160	2,671
Equipment – repairs and maintenance	685	1,075
Local taxes	-	398
<b>Subtotal</b>	<b>2,098,149</b>	<b>1,444,464</b>
Allocation of general and administrative expenses	<b>(1,611,937)</b>	<b>(1,279,192)</b>
<b>Total</b>	<b>\$ 486,212</b>	<b>\$ 165,272</b>
<b>Fundraising:</b>		
Fundraising:	\$ 33,549	\$ 28,763
Charitable golf outing	5,445	-
<b>Subtotal</b>	<b>38,994</b>	<b>28,763</b>
Allocation of general and administrative expenses	<b>51,589</b>	<b>41,965</b>
<b>Total</b>	<b>\$ 90,583</b>	<b>\$ 70,728</b>