



**INDEPENDENT AUDITOR'S REPORT AND  
FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2008 and 2007**

Allen P. DeLeon, CPA, P.C.  
Richard C. Stang, CPA, P.C.  
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...improving the financial lives  
of our clients, our staff  
& our community with  
integrity, trust & innovation

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

We have audited the accompanying statements of financial position of the **AAA Foundation for Traffic Safety** (the Foundation) as of December 31, 2008 and 2007, and the related statements of activity and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The supplementary information, on pages 14-16, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*DeLeon & Stang*

**DeLeon & Stang, CPAs  
Gaithersburg, Maryland  
March 25, 2009**

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Statements of Financial Position**  
**December 31, 2008 and 2007**

	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 580,169	\$ 439,210
Investments, at fair value	6,203,708	7,543,254
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2008 and \$1,239 in 2007	504,514	466,505
Pledge endowment receivable	3,303,080	4,128,027
Inventory	101,211	126,098
Prepaid expenses and other assets	21,585	28,955
Furniture and equipment, net of accumulated depreciation of \$211,604 in 2008 and \$184,220 in 2007	72,344	78,378
Total assets	<b>\$ 10,786,611</b>	<b>\$ 12,810,427</b>
<b>LIABILITIES AND NET ASSETS</b>		
<u>Liabilities:</u>		
Accounts payable and accrued expenses	\$ 390,772	\$ 175,461
Accrued pension liability	399,410	114,832
Unamortized endowment contribution discount	98,213	414,436
Total liabilities	888,395	704,729
<u>Net Assets:</u>		
Net assets, unrestricted	310,557	3,205,951
Net assets, unrestricted, Board designated for endowment	3,030,000	3,030,000
Other comprehensive income (loss)	-	(77,214)
Net assets, unrestricted	3,340,557	6,158,737
Net assets, temporarily restricted	117,224	123,749
Net assets, permanently restricted for endowment	6,440,435	5,823,212
Net assets, restricted	6,557,659	5,946,961
Total net assets	9,898,216	12,105,698
Total liabilities and net assets	<b>\$ 10,786,611</b>	<b>\$ 12,810,427</b>

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Statements of Activity and Changes in Net Assets**  
**For the Years Ended December 31, 2008 and 2007**

<u>Revenue and support:</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Contributions from AAA affiliated organizations and others	\$ 2,498,943	\$ 669,399	\$ 617,223	\$ 3,785,565	\$ 8,036,105
Sales of videos and guides and other	185,024	-	-	185,024	346,338
Investment income (loss)	(2,579,463)	-	-	(2,579,463)	302,737
Net assets released from restrictions	<u>675,924</u>	<u>(675,924)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	780,428	(6,525)	617,223	1,391,126	8,685,180
<u>Expenses and losses:</u>					
<u>Program services:</u>					
Research	1,802,385	-	-	1,802,385	1,560,220
Public education	831,254	-	-	831,254	765,011
Product sales	<u>155,521</u>	<u>-</u>	<u>-</u>	<u>155,521</u>	<u>171,838</u>
Total program services	2,789,160	-	-	2,789,160	2,497,069
<u>Supporting services:</u>					
Management and general	590,310	-	-	590,310	187,879
Fundraising	<u>219,138</u>	<u>-</u>	<u>-</u>	<u>219,138</u>	<u>182,106</u>
Total supporting services	<u>809,448</u>	<u>-</u>	<u>-</u>	<u>809,448</u>	<u>369,985</u>
Total expenses and losses	<u>3,598,608</u>	<u>-</u>	<u>-</u>	<u>3,598,608</u>	<u>2,867,054</u>
Increase (decrease) in net assets, before minimum pension liability	(2,818,180)	(6,525)	617,223	(2,207,482)	5,818,126
Minimum pension liability	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,910</u>
Increase(decrease) in net assets	<u>(2,818,180)</u>	<u>(6,525)</u>	<u>617,223</u>	<u>(2,207,482)</u>	<u>5,891,036</u>
Net assets, beginning of year	<u>6,158,737</u>	<u>123,749</u>	<u>5,823,212</u>	<u>12,105,698</u>	<u>6,214,662</u>
Net assets, end of year	<u>\$ 3,340,557</u>	<u>\$ 117,224</u>	<u>\$ 6,440,435</u>	<u>\$ 9,898,216</u>	<u>\$ 12,105,698</u>

See Notes to Financial Statement

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2008 and 2007**

	2008	2007
<u>Cash Flows From Operating Activities:</u>		
Increase (decrease) in net assets	\$ (2,207,482)	\$ 5,891,036
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	27,384	17,183
Unrealized loss on investments	2,437,112	407,140
Increase (decrease) in provision for bad debt	(1,239)	1,239
(Increase) in net accounts receivable	(36,770)	(83,744)
(Increase) decrease in pledges receivable	824,947	(4,128,027)
Increase (decrease) in endowment contribution discount	(316,223)	414,436
(Increase) decrease in prepaid assets	7,370	(21,175)
Decrease (Increase) in inventories	24,888	(31,202)
Increase in accounts payable	205,561	477
Increase in other accrued liabilities	9,749	7,586
Increase (decrease) in accrued pension liability	284,578	(42,139)
Total adjustments	3,467,357	(3,458,226)
Net cash provided by operating activities	1,259,875	2,432,810
<u>Cash Flows From Investing Activities:</u>		
Sales and maturity of investments, net of (purchases)	(1,097,567)	(2,365,495)
Purchases of fixed assets	(21,349)	(40,964)
Net cash (used) used by investing activities	(1,118,916)	(2,406,459)
Net increase cash for the year	140,959	26,351
Cash and cash equivalents at beginning of year	439,210	412,859
Cash and cash equivalents at end of year	\$ 580,169	\$ 439,210

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2008 and 2007**

**PURPOSE 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 individual AAA members; from AAA-affiliated insurance companies; and from others.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

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

In 2007 the Board designated to add \$30,000 to the Board designated endowment fund established to set aside funds for future operations. The balance was \$3,030,000 as of December 31, 2007. No additional designation has been made as of December 31, 2008.

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Cash Equivalents**

The Foundation considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of money market and overnight investment accounts. Cash equivalents at December 31, 2008 and 2007 were \$580,169 and \$439,210, respectively.

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market values. Gains and losses on investments, including changes in fair value, are reported in the statements of activities as increases or decreases in unrestricted net assets, unless their use is restricted by the donor.

**Inventory**

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

**Furniture and Equipment**

Furniture equipment and automobiles are recorded at cost. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

Furniture	7 years
Office equipment	5 years
Automobiles	5 years

Depreciation expense was \$27,384 and \$17,183 in 2008 and 2007, respectively.

**Contributions**

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

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Foundation receives an in-kind contribution of office space from AAA. The Foundation has recorded the fair value of the office space of \$190,600 and \$184,800 as contribution revenue and program and general administration expense in the accompanying statements of activities for each of the years ended December 31, 2008 and 2007, respectively.

**Pledges Receivable**

Pledges receivable are recorded at their estimated net realizable value. Pledges consist of annual or periodic pledges and those related to the endowment campaign. The annual or periodic pledges are expected to be collected within one year. Endowment pledges are expected to be collected in 2009 through 2012. The endowment receivable for 2010 through 2012 has been discounted to the present value of future cash flows. The discount rate, 3.22%, is the Foundation's average return on investment during the prior two years.

**Income Taxes**

The Foundation has been recognized as exempt from federal income taxes by the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been established in 2008 or 2007, as the Foundation has no unrelated business activity.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Users of the financial statements should refer to the 2007 audit and financial statements for additional information about 2007 activities.

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 2 - INVESTMENTS**

Investments are stated at fair value at December 31 and are comprised of the following:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 24,085	\$ 1,470
Corporate bonds and fixed income mutual funds	1,556,314	1,990,480
Common stocks and stock mutual funds	<u>4,623,309</u>	<u>5,551,304</u>
Total investments	<u>\$ 6,203,708</u>	<u>\$ 7,543,254</u>

The Foundation's investments are maintained in the following custodial accounts:

	<u>2008</u>	<u>2007</u>
Endowment investment account	\$ <u>6,203,708</u>	\$ <u>7,543,254</u>
Total	<u>\$ 6,203,708</u>	<u>\$ 7,543,254</u>

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

	<u>2008</u>	<u>2007</u>
Interest income	\$ 4,095	\$ 19,094
Dividend income	261,495	145,164
Realized gain (loss) on sales of investments, net	(407,941)	545,619
Unrealized gains (loss), net	<u>(2,437,112)</u>	<u>(407,140)</u>
Investment income, net	<u>\$ (2,579,463)</u>	<u>\$ 302,737</u>

Fair Value

Marketable securities are valued at fair value, based on quoted prices in active markets for identical investments.

**NOTE 3 - RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2008 and 2007 were \$117,224 and \$123,749, respectively. Permanently restricted net assets were \$6,440,435 and \$5,823,212 at December 31, 2008 and 2007, respectively. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 4 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS**

**Pension Plan**

Substantially all employees of the Foundation are covered under the AAA and subsidiary companies' noncontributory defined benefit retirement plan (the Plan). Under this arrangement, AAA and the Foundation have the same benefit plan design, but each organization is responsible for its own funding and has a separate benefit trust. In 2008 and 2007, the Foundation made contributions of \$88,000 and \$0 respectively, to the Plan. The Plan assets are invested primarily in equity mutual funds.

The following table sets forth amounts of the Foundation's portion of the Plan's funded status and amounts recognized in the Foundation's financial statements at December 31:

	<u>2008</u>	<u>2007</u>
Projected benefit obligation at December 31:	\$ 980,319	\$ 875,352
Fair value of plan assets at December 31:	<u>647,600</u>	<u>819,153</u>
Funded status	<u>\$ (332,719)</u>	<u>\$ (56,199)</u>
Benefit cost	\$ 65,660	\$ 72,910
Employer contribution	88,000	-
Benefits paid	27,334	27,334
Accumulated benefit obligation	905,523	810,552
Net periodic benefit cost	(65,660)	(72,910)
Total recognized in net periodic benefit cost	364,520	(22,012)
Net (loss) gain	(430,885)	(131,459)
Prior service (cost) credit	<u>(1,388)</u>	<u>(1,954)</u>
Total amount recognized in statement of activities	(432,273)	(133,413)
Weighted average assumptions at December 31:		
Discount rate	6.45%	5.87%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	4.00%	4.00%
Asset Allocations at December 31:		
Equity securities	44.00%	50.00%
Debt securities	25.00%	24.00%
Real Estate	11.00%	11.00%
Other	<u>20.00%</u>	<u>15.00%</u>
Total	100.00%	100.00%

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 4 - RETIREMENT AND POST-RETIREMENT BENEFIT PLANS** (Continued)

The following table sets forth the amount of the Foundation's portion of the Retirement Plan's funded status and amounts recognized in the Foundation's financial statements at December 31:

Cash Flows:

Expected benefit payments beginning December 31:

2009	\$	33,574
2010		36,235
2011		47,889
2012		58,136
2013		79,892
Five years and thereafter		444,739

**Post-Retirement Benefits Plan**

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

Significant assumptions used in the actuarial computation for 2008 are as follows:

	<u>2008</u>	<u>2007</u>
Accumulated post-retirement benefit obligation	<u>\$ (66,691)</u>	<u>\$ (58,633)</u>

**NOTE 5 - THRIFT PLAN**

The Foundation has a defined contribution pension plan in which the Foundation will match the employees' contributions. The minimum employee contribution is 1%, and the maximum is 6% of the employee's base compensation. The employees are partially vested after three years of service and fully vested after five years of service with respect to the employer's contributions. The employee is immediately vested with respect to the employee's contributions. The Foundation's contributions to this plan were \$29,329 and \$29,329 during the years ended December 31, 2008 and 2007, respectively. Plan assets were \$604,197 and \$783,943 at December 31, 2008 and 2007, respectively.

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 6 - FUNCTIONAL EXPENSES**

Expenses incurred during 2008 and 2007 presented on a functional basis are as follows:

	<u>2008</u>	<u>2007</u>
<u>Programs:</u>		
Research	\$ 1,802,385	\$ 1,560,220
Public education	831,254	765,011
Product sales	<u>155,521</u>	<u>171,838</u>
	2,789,160	2,497,069
 <u>Support:</u>		
Administration	590,310	187,879
Fundraising	<u>219,138</u>	<u>182,106</u>
	809,448	369,985
 Total Expenses	<u>\$ 3,598,608</u>	<u>\$ 2,867,054</u>

Certain program and general administration expenses presented in the statements of activities, primarily salary, and related benefits have been allocated to program, administration, and fundraising expenses based on direct time spent by personnel of the Foundation on these activities. During 2008 the Foundation experienced a large increase in administrative expense related to the Foundations pension plan funding status. The total amount of additional pension funding included in administrative expense was \$284,578.

Research and development costs totaled and \$1,311,695 and \$1,087,585 for the years ended December 31, 2008 and 2007, respectively.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
<u>Balance December 31:</u>	\$ 123,749	\$ 44,942
<u>Contributions:</u>		
iRap & US Rap	510,117	237,805
Driver evaluations-TIRF	159,282	-
Guidelines to evaluate DE project	-	48,951
SAAB tire litigation	-	100,000
Edwin S. Soforenko fund	-	2,500
Charles M. Hayes Safety Patrol Program	-	15,000
Project expense released from restrictions	<u>(675,924)</u>	<u>(325,449)</u>
 Total temporarily restricted net assets	<u>\$ 117,224</u>	<u>\$ 123,749</u>

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Notes to the Financial Statements (Continued)**  
**For the Years Ended December 31, 2008 and 2007**

**NOTE 8-      SUBSEQUENT EVENTS**

Due to the current U.S. recession and declining values of investment securities trading on U.S. securities exchanges, the investment portfolio of the Foundation has declined by an additional \$445,000 (approximately) as of March 2009.

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**SUPPLEMENTARY INFORMATION**

**AAA FOUNDATION FOR TRAFFIC SAFETY**  
**Expenses for Current Projects - Studies**  
**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
iRap	\$ 376,266	\$ 273,779
Road assessment program	237,457	163,994
Defining traffic	152,379	-
DE Evaluation	137,096	158,218
Learner Stage	78,980	85,363
Pysc foundations of South Carolina	70,000	-
License policies & practices	60,820	-
General research	48,192	23,131
Driving skills validation	40,000	-
MO Reporting Law	30,421	81,218
Video updates	21,650	-
Black boxes	20,000	-
Public Surveys	17,795	153,226
Meds And Older Driver	15,625	28,125
Rice Efficiency of Child Seats	5,000	41,833
License Policies	14	38,828
Interactive tool	-	26,990
Getting around alternative	-	5,695
In-vehicle technologies	-	5,676
Enhancing driver performance	-	1,509
	<u>1,311,695</u>	<u>1,087,585</u>
Subtotal research and development		
Project outreach	152,409	85,411
Editorial services	28,063	10,835
Printing of research reports	6,006	39,405
	<u>1,498,173</u>	<u>1,223,236</u>
Total expenses for current projects - studies	\$	\$

**AAA FOUNDATION FOR TRAFFIC SAFETY  
Program and General Administration Expenses  
For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Salaries	\$ 708,157	\$ 624,226
Employee fringe benefits	550,468	201,408
Office rent	190,600	184,800
Fundraising	113,008	128,406
Public education and giveaways	76,566	94,133
Accounting	53,831	43,503
Payroll taxes	52,153	44,975
General outreach	49,446	42,399
Travel and management - Staff	38,234	37,520
Travel and management - Committee	23,212	23,558
Consultant fees	21,000	-
Depreciation - furniture and equipment	16,389	15,408
Auditing	16,300	15,300
Travel and management - Board	15,510	4,042
Legal services	13,097	3,203
Telephone	11,344	9,062
Depreciation - automobile	10,995	1,775
Postage and delivery	10,692	12,272
Contribution expense	9,137	12,819
Stationary and office supplies	7,063	11,689
Charitable golf outing	3,500	-
Dues and subscriptions	3,482	3,655
Training	3,376	3,323
Furniture and equipment - repairs and maintenance	3,269	929
Auto operating expenses	1,227	6,126
Computer supplies/services	527	907
Local taxes	190	705
Bad debt expense	<u>(1,239)</u>	<u>1,239</u>
Total general and administrative expenses	<u>\$ 2,001,534</u>	<u>\$ 1,527,382</u>