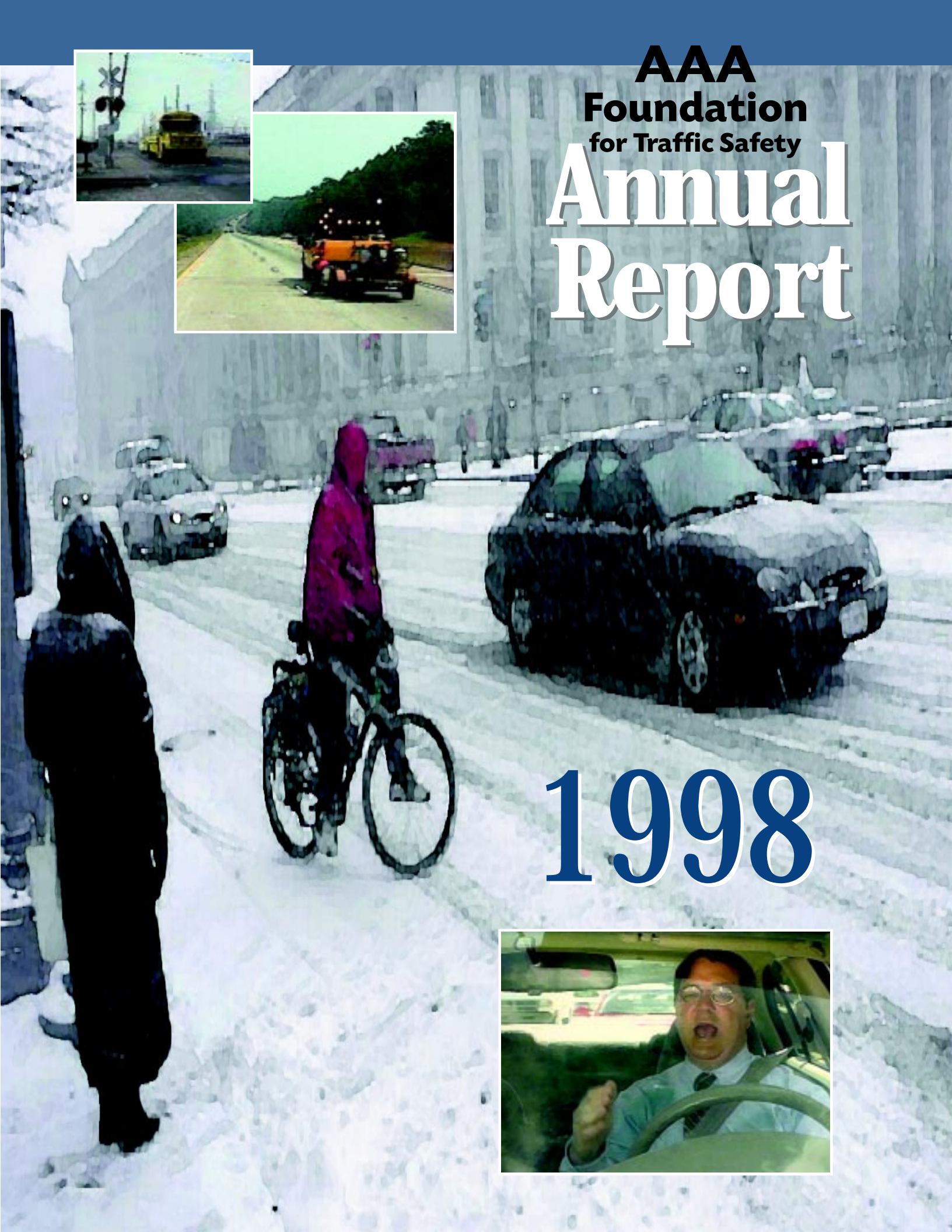


AAA
Foundation
for Traffic Safety

Annual Report



1998



The President's Letter

Every year more people take to the road—to commute, to travel, or just for the thrill of driving. The AAA Foundation for Traffic Safety works hard to ensure that every single one of these trips is safe, not just for drivers but also for passengers, cyclists, skaters, and pedestrians.

As we have done since 1947, the Foundation continues to focus our safety energy on two areas, research and education. By commissioning and directing thorough, well-designed research, we help to expand the body of knowledge about traffic safety. Through our educational materials and programs, we get this information out to the public in usable, easy-to-understand formats.

In 1998 the Foundation introduced an innovative use of technology into our repertoire of resources. Driver-ZED, an award-winning, interactive, multimedia CD-ROM, teaches teen drivers about managing driving risks. We've also upgraded our website, adding new research reports, a photo library, and links that help people interested in traffic safety to find what they need.

The Foundation also experienced staffing changes in 1998. Scott Osberg, Ph.D., joined the Foundation as its new Director of Research. Dr. Osberg will focus on identifying and changing behaviors that reflect driving, in keeping with the Foundation's results-oriented research efforts. Communications and marketing assistant Joshua Poole also joined the staff this year, replacing our previous webmaster, Christopher Johnson.

As always, we continue to rely on the support of AAA and CAA clubs and members for support and assistance. By applying all our resources, we're able to provide the public with an ongoing source of information about traffic safety. Last year, the Foundation reached a combined circulation of 110, 524,790 people through newspapers alone, and millions more through radio and television appearances. In addition, the Foundation donated hundreds of thousands of cards, brochures, videos, and other safety materials to organizations that put them directly in the hands of the public.

AAA Foundation efforts continue to span the full spectrum of traffic safety, from teaching teens how to spot risks, helping experienced drivers deal with road rage and drowsiness, and offering information to older drivers about how to remain safe.

Behind the wheel

More than any other variable, driver behavior determines safety. That's why the AAA Foundation focuses most of its educational efforts on driver behavior — fostering better judgment, increasing driver awareness, and helping drivers relate better to each other on the road.

DRIVER-ZED

Teen drivers have the worst crash record of any age group. They're also one of the fastest-growing segments of the driving population. In the next decade alone, the number of teens on the road will increase by 20 percent. The need to improve young drivers' safety prompted the Foundation to create driver-ZED, an interactive, multimedia CD-ROM that helps teens hone their judgment with "on the road" scenarios they experience on a computer. The Foundation officially launched the program this year with an event recognizing the vast talent pool and immense effort that went into creating this innovative product.

Driver-ZED has received accolades from students and traffic experts alike. In June, Foundation President David Willis and Transportation Secretary Rodney Slater observed students using the program at a high school in Virginia. Slater was impressed, commenting that driver-ZED is "making transportation more intelligent by giving new drivers real-life experience through the use of technology."



Research also showed that driver-ZED is effective. A test at a Vermont high school demonstrated that using the program significantly improves a young driver's ability to perceive risk in the environment. In one class, students who had used the CD-ROM recorded almost one-third fewer mistakes on a practical driving test than students who hadn't used the program. Students also gave the program high marks — about three-quarters said they would recommend it to their friends.

Around the country, organizations began sponsoring efforts to get driver-ZED into classrooms. Phillips Petroleum Company teamed with AAA Oklahoma to distribute driver-ZED to high schools throughout the state. More than 400 Florida high schools and boys' and girls' clubs received copies through the efforts of Auto Club South, and that club's insurance company planned eventually to donate a copy to every high school in Florida. AAA Tuscarawas incorporated the program into its driver education classes. Around the country, driver-ZED is making an impact on teens' awareness of danger.



In 1998, driver-ZED also received two awards: a prestigious Golden Eagle from the Council on Non-Theatrical Events (CINE), and a silver medal from The New York Festivals

ROAD RAGE

Road rage continues to be a “hot” topic for the media and traffic safety experts. AAA Foundation representatives participated in television and radio programs devoted to the subject, including Fox News and Good Morning America. In addition, the Foundation provided background and interviews for dozens of print stories on road rage and aggressive driving that appeared in hundreds of newspapers throughout the country.

In February, the AAA Foundation held a press conference to announce distribution of a new series of audio public service announcements (PSAs) about road rage. The spots used humor to show how “road rage” would look in ordinary life, such in supermarkets or receiving lines. The press conference announcing the spots featured psychologist Gail Parker, along with drivers who had successfully calmed their own aggressive driving tendencies through taking anger management courses. National media turned out in full force to cover the story.



The AAA Foundation also released *Preventing Road Rage — Anger Management for Drivers*. By showing comparing the experiences of an angry driver with those of a relaxed driver, the video teaches motorists how to manage stress and develop a calmer approach toward driving. The video can be used in combination with the Foundation’s “Preventing Road Rage” brochure to help drivers react less dangerously to highway stress.



DROWSY DRIVING

Just as pumped-up, aggressive drivers create problems, drivers who are too relaxed and ready for sleep can also cause crashes. In 1998, the Foundation launched an effort to teach drivers the warning signs of drowsiness and to examine the best ways of dealing with sleepiness behind the wheel.

In early September, the AAA Foundation released findings from a study it sponsored at the University of Pennsylvania. The research team, led by noted sleep specialist Dr. David Dinges, asked experts to rate the efficacy of anti-drowsiness strategies drivers often use. Rejecting everything from blasting the radio to

driving barefoot, the experts identified that the only truly effective countermeasures were sleep and caffeine, with exercise as a way to become alert more rapidly after the sleep.

At a news conference, AAA Foundation president David Willis and Dr. Dinges, along with researcher Beatrice Jauregui, presented these results to the media. Athletic trainers from The Fitness Company also demonstrated exercises that would help drivers de-stress and improve their alertness.

To bring the message to drivers throughout the country, the Foundation created colorful, informative cards advocating "Sleep-Exercise-Caffeine" as the solution to drowsy driving. The cards instructed drowsy drivers to take a brief nap, engage in a few minutes of brisk exercise to shake off sleepiness, and then drink a caffeinated beverage to restore alertness.

ONGOING RESEARCH

Funding Future Researchers

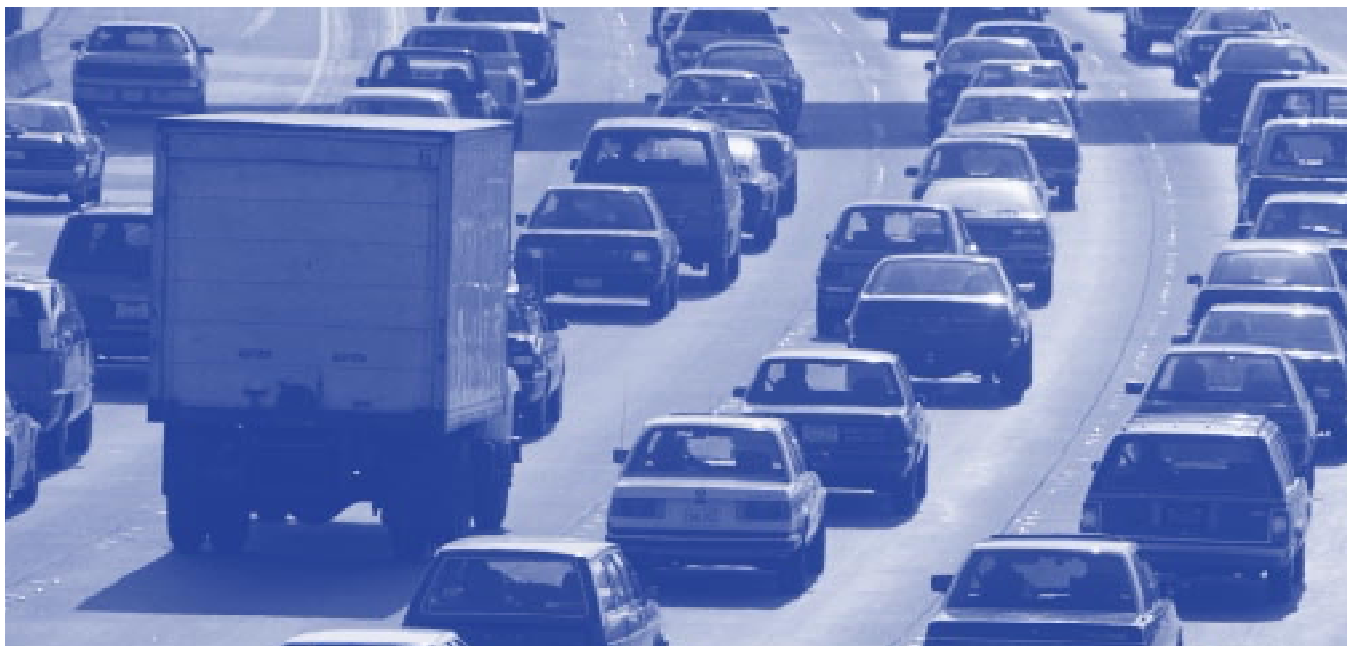
By funding students who want to do graduate work in transportation, the AAA Foundation hopes to ensure a steady stream of bright young minds in the field of traffic safety. In 1997 the Foundation voted to fund four fellowships, each of which includes a \$15,000 annual stipend for four years.

In 1998 the AAA Foundation awarded its first doctoral fellowship to Jacqueline Jenkins of Etobicoke, Canada, who is studying road transportation at the Texas Transportation Institute of Texas A&M University. Ms. Jenkins is a graduate of the University of Waterloo and has a particular interest in collision avoidance. More fellowships will be awarded each year until the target of four concurrent fellowships is reached.

Other projects that were ongoing in 1998 included:

- A study of speed-reducing pavement markings. This ongoing study is investigating whether special pavement markings cause motorists to slow down. Markings have been installed in Shiprock, New Mexico, and are scheduled for installation in Waldo, Florida. The study is expected to continue into 2000.

- A survey of law enforcement agencies on road rage countermeasures. The study polled law enforcement officials to determine what strategies they used to combat aggressive driving, as well as their experience with road rage incidents. This study is expected to be completed in early 1999.
- A study evaluating the cost-effectiveness of testing all first-time DWI offenders for alcoholism. This meta-analysis is being performed by the Behavioral Health Research Center of the Southwest, Albuquerque, NM and is scheduled for completion in March, 2000.
- A study to combat DUI recidivism, performed by the Traffic Injury Research Foundation of Canada, scheduled to be completed in 1999.
- A study of the threats posed by unlicensed drivers. The study is being performed by the Texas Transportation Institute and will be completed in the summer of 1999.
- Identifying risk factors for sleep-related crashes. This study involved interviewing drivers and comparing the work schedules, amount of sleep, and other factors between those who had experienced sleep-related crashes and those who had not. The study is being conducted by the University of North Carolina Highway Safety Research Center, and is scheduled to be completed early in 1999.
- Development of an adult version of driver-ZED. The video footage from the original driver-ZED will be edited and reorganized to provide an adult version of the program. The finished adult driver-ZED program is expected to be on the market by the end of 1999.



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() = year term expires

Financial Statements

Independent Auditors' Report

The Board of Trustees
AAA Foundation for Traffic Safety:

We have audited the accompanying balance sheets of AAA Foundation for Traffic Safety as of December 31, 1998 and 1997, and the related statements of activities 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 audits.

We conducted our audits in accordance with 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audits provide a reasonable basis for our 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 at December 31, 1998 and 1997, and its changes in net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

March 5, 1999

AAA FOUNDATION FOR TRAFFIC SAFETY

Balance Sheets

December 31, 1998 and 1997

Assets	1998	1997
Cash and cash equivalents		
Investments, at fair value (note 2)	\$ 252,863	50,966
	3,478,473	3,187,212
Receivables:		
Accrued interest	22,038	25,671
Trade accounts, net of allowance for doubtful accounts of \$14,494 in 1998 and \$2,638 in 1997	35,923	22,459
Contributions receivable	-	20,000
Note receivable	-	2,500
Total receivables	57,961	70,630
Inventory	47,264	19,207
Prepaid pension expense (note 3)	35,083	25,457
Furniture and equipment	129,109	109,619
Less accumulated depreciation	(75,293)	(63,093)
Furniture and equipment, net	53,816	46,526
	\$ 3,925,460	3,399,998
Liabilities and Net Assets		
Liabilities - accounts payable and accrued expenses	\$ 103,561	113,424
Net assets:		
Unrestricted	3,801,899	3,266,574
Permanently restricted for endowment	20,000	20,000
Commitment (note 7)	3,821,899	3,286,574
Total net assets	\$ 3,925,460	3,399,998

See accompanying notes to financial statements.

AAA FOUNDATION FOR TRAFFIC SAFETY

Statements of Activities

Years Ended December 31, 1998 and 1997

Changes in unrestricted net assets:	1998	1997
Revenue:		
Contributions from AAA affiliated organizations and others	\$ 1,438,059	1,275,552
Sales of videos and guides	457,765	218,070
Investment income, net (note 2)	365,581	530,094
Net assets released from restriction	-	116,206
Total revenue	2,261,405	2,139,922
Expenses (note 5):		
Current projects - videos and studies	487,870	791,957
Cost of sales - videos and guides	357,410	210,524
Program and general administration	880,800	797,931
Total expenses	1,726,080	1,800,412
Increase in unrestricted net assets	535,325	339,510
Changes in temporarily restricted net assets:		
Net assets released from restriction (note 6)	-	(116,206)
Changes in permanently restricted net assets - contributions	-	20,000
Changes in net assets	535,325	243,304
Net assets, beginning of year	3,286,574	3,043,270
Net assets, end of year	\$ 3,821,899	3,286,574

See accompanying notes to financial statements.

AAA FOUNDATION FOR TRAFFIC SAFETY

Statements of Cash Flows

Years Ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Increase in net assets	\$ 535,325	243,304
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	13,203	11,387
Loss on disposal of furniture and equipment	4,177	-
Amortization of premium/discount on investments	2,231	2,231
Realized gain on sale of investments	(58,966)	(256,262)
Unrealized gain on investments	(152,110)	(120,356)
Increase (decrease) in allowance for doubtful accounts	11,856	(3,455)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	813	(9,276)
(Increase) decrease in inventory	(28,057)	15,108
Increase in prepaid pension expenses	(9,626)	(6,198)
Increase (decrease) in accounts payable and accrued expenses	(9,863)	49,041
Cash contribution received for endowment	(20,000)	-
Net cash provided by (used in) operating activities	288,983	(74,476)
Cash flows from investing activities:		
Purchase of investments	(2,662,485)	(4,432,297)
Proceeds from sales and maturities of investments	2,580,069	4,281,972
Purchases of furniture and equipment, net	(24,670)	(15,879)
Net cash used in investing activities	(107,086)	(166,204)
Cash flows from financing activities:		
Cash contribution received for endowment	20,000	-
Increase (decrease) in cash and cash equivalents	201,897	(240,680)
Cash and cash equivalents, beginning of year	50,966	291,646
Cash and cash equivalents, end of year	\$ 252,863	50,966

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1998 and 1997

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 non-profit, 501(c)(3) charitable organization and is supported by voluntary contributions from the American Automobile Association, the Canadian Automobile Association, and their affiliated motor clubs; from individual AAA members; and from AAA-affiliated insurance companies.

In 1993 the Foundation sharpened its focus to concentrate on practical applications derived from its research. Existing research was examined to determine how it could be used and new projects have been approved to serve practical ends. Since 1993, the Foundation has become increasingly active as an expert source of traffic safety information.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also effect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

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, and are classified as investment income in the statements of activities.

(1) (Continued)

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 and equipment are recorded at cost. Furniture and equipment are depreciated based on estimated useful lives as follows:

Furniture and office equipment	7 years
Automobiles	5 years

Contributions

The Foundation receives voluntary contributions principally from affiliated organizations including the American Automobile Association (AAA) and AAA motor clubs, and individual AAA club members.

Temporarily restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

The Foundation receives an in-kind contribution of office space from AAA. The Foundation has recorded the fair value of the office space of \$120,000 and \$118,287 as contribution revenue and program and general administration expense for the years ended December 31, 1998 and 1997, respectively.

During 1998, the Foundation received contributed services from the AAA Michigan Club for video production services. The Foundation has recorded the fair value of the video production services of \$22,765 in 1998 as contribution revenue and current projects expense. During 1997, the Foundation did not receive any contributed services.

Income Taxes

The Foundation is recognized as exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), except for activities unrelated to its exempt purpose. No provision for income taxes was required in 1998 or 1997.

Cash Equivalents

Cash equivalents consist of an overnight investment account. Cash equivalents at December 31, 1998 were \$235,000. The Foundation had no cash equivalents at December 31, 1997.

(2) INVESTMENTS

Investments at December 31 are comprised of the following:

	1998	1997
Money market fund	\$ 249,628	123,047
U.S. government obligations	1,272,512	1,355,863
Corporate bonds	383,602	344,513
Common stocks	1,572,731	1,363,789
	<hr/>	
	\$ 3,478,473	3,187,212
	<hr/>	

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

	1998	1997
Interest income	122,910	114,036
Dividend income	58,046	62,394
Realized gains on sales of investments	\$ 58,966	256,262
Unrealized gain representing the change in fair value	152,110	120,356
	<hr/>	
	392,032	553,048
Investment expense	(26,451)	(22,954)
	<hr/>	
	\$ 365,581	530,094
	<hr/>	

(3) RETIREMENT PLAN

Substantially all employees of the Foundation are covered under the AAA and subsidiary companies' noncontributory defined benefit retirement plan. The Foundation makes contributions to the plan equal to the amounts accrued for pension expense. Plan assets are invested primarily in equity mutual funds.

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

	1998	1997
Accumulated benefit obligation:		
Vested	\$ (456,752)	(375,494)
Nonvested	(11,276)	(34,169)
	<hr/> (468,028)	<hr/> (409,663)
Effects of projected future compensation levels	(58,507)	(31,904)
Projected benefit obligation	<hr/> (526,535)	<hr/> (441,567)
Fair value of plan assets	592,032	647,460
Unrecognized prior service costs	27,314	(1,542)
Unrecognized net gain	(68,989)	(193,910)
Unamortized balance of transition asset	11,261	15,016
Prepaid pension expense	<hr/> \$ 35,083	<hr/> 25,457

Net periodic pension cost for the years ended December 31 included the following components:

	1998	1997
Service cost - benefits earned during the year	\$ 24,285	15,133
Interest cost on projected benefit obligations	32,096	32,086
Actual return on plan assets	55,428	(106,716)
Net amortization	<hr/> (121,435)	<hr/> 53,301
Net periodic pension cost (benefit)	<hr/> \$ (9,626)	<hr/> (6,196)

Significant assumptions used in the actuarial computations are as follows:

	1998	1997
Weighted-average discount rate	7.00%	7.25%
Weighted-average compensation increase	5.00%	4.00%
Return on assets	9.00%	9.00%

(4) 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 percent, and the maximum is 6 percent of the employee's base compensation. The employees are partially vested after three years of service and fully vested after five years 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 \$20,677 and \$19,470 during the years ended December 31, 1998 and 1997, respectively.

(5) FUNCTIONAL EXPENSES

Expenses incurred during 1998 and 1997 presented on a functional basis are as follows:

	1998	1997
<i>Programs:</i>		
Research	\$ 482,893	689,992
Public education	466,931	500,141
Product sales	518,594	328,462
	<hr/> 1,468,418	<hr/> 1,518,595
<i>Support:</i>		
Administration	165,639	177,013
Fund-raising	92,022	104,804
	<hr/> 257,661	<hr/> 281,817
	<hr/> \$ 1,726,079	<hr/> 1,800,412

Certain program and general administration expenses presented in the statements of activities, primarily salary and related benefits, have been allocated to program and fund-raising expenses based on direct time spent by personnel of the Foundation on these activities.

Research and development costs totaled \$240,816 and \$472,004 for the years ended December 31, 1998 and 1997, respectively.

(6) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 1996 were available to support the Foundation's CD-ROM project and spent for that purpose in 1997. The Foundation did not have any temporarily restricted net assets at December 31, 1998 and 1997.

(7) COMMITMENT

In February 1998 the Foundation agreed to contribute \$15,000 per year for the next four years to fund a graduate fellowship program at Texas A&M University for a student pursuing a Ph.D. in civil engineering and traffic safety. The Foundation contributed \$15,000 during 1998, that was recorded as program and general administration expense, and the remaining \$45,000 was also expensed as program and general administration expense and is included in accounts payable and accrued expenses as of December 31, 1998.

(8) YEAR 2000

The Foundation is in the process of addressing anticipated operational issues resulting from the Year 2000 problem. The Year 2000 problem is typically the result of computer programs using two digits rather than four digits to define the applicable year for date interpretation. Management believes that resources have been budgeted or are otherwise available to ensure that mission-critical systems will be functioning as necessary to avoid any major business interruption. However, no assurance can be given that the Foundation can or will become Year 2000 compliant.

Supplementary Information

Independent Auditors' Report on Supplementary Information

The Board of Trustees
AAA Foundation for Traffic Safety:

We have audited and reported separately herein on the financial statements of AAA Foundation for Traffic Safety as of and for the years ended December 31, 1998 and 1997.

Our audits were made for the purpose of forming an opinion on the basic financial statements of AAA Foundation for Traffic Safety taken as a whole. The supplementary information included in Schedules 1 and 2 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.

March 5, 1999

AAA FOUNDATION FOR TRAFFIC SAFETY

Expenses for Current Projects - Videos and Studies

Years Ended December 31, 1998 and 1997

	1998	1997
Videos:		
Antilock Video	\$ -	48,675
Video for Older Adults	-	1,170
School Bus Evacuation Video	-	18,129
Just Another Saturday Night	563	54,849
Remake "Children in Traffic"	39,786	-
Total videos	40,349	122,823
Studies:		
Special reprints of research reports	120	8,380
Annual meeting presentation	6,827	20,662
Traffic safety graduate fellowships	15,000	1,044
Scope of drowsy driving	73,082	35,813
Pavement Marking Research	50,495	26,481
New public service announcements - road rage	-	10,063
Program to combat recidivism	-	7,330
Road rage countermeasures	118,779	37,983
Project Outreach	105,990	111,668
New "Starting Early" program	-	16,842
Driver Alertness	179	-
Aggressive Driving	-	13,168
CD-ROM	950	379,700
Longer Combination Vehicles	2,250	-
Adult version driverZED	39,468	-
Safety Problems Unlicensed Driver	34,381	-
Total studies	447,521	669,134
Total videos and studies	\$ 487,870	791,957

AAA FOUNDATION FOR TRAFFIC SAFETY

Program and General Administration Expenses

Years Ended December 31, 1998 and 1997

	1998	1997
Salaries	\$ 355,507	340,483
Office and furnishings rent	120,000	118,287
Employee benefits	72,555	72,944
Travel:		
Board of Trustees	3,047	4,780
Advisory committee	29,419	21,126
Travel - staff	20,529	24,846
Promotion and publicity	40,149	28,409
Shipping costs	21,071	16,687
Fund-raising	30,167	66,492
Payroll taxes	23,455	19,616
Accounting	23,533	20,629
Stationery and supplies	9,807	7,102
Depreciation	13,203	11,387
Professional services	19,986	14,559
Bad debt expense (recoveries)	11,674	(3,760)
Computer supplies	3,599	4,899
Telephone	8,073	10,510
Write-off of inventory	2,768	3,571
Local taxes	1,529	1,158
Auto operating expense	2,633	1,280
Dues and subscriptions	2,497	2,286
Maintenance and repairs	924	342
Contribution expense	57,000	10,000
Loss on disposal of asset	4,177	298
Editorial	2,000	-
Consultant fees	1,498	-
	\$ 880,800	797,931

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(202) 638-5944

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