

**American Association of
Motor Vehicle Administrators**

**AMERICAN ASSOCIATION OF MOTOR
VEHICLE ADMINISTRATORS
AND AFFILIATES**

**Agreed-Upon Procedures Performed on the
National Motor Vehicle Title Information System**

For the Year Ended September 30, 2014

—◆—
and
Report Thereon
—◆—



Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors of the
American Association of Motor Vehicle Administrators

We have performed the procedures enumerated in Attachment I, which were developed based on guidance from the Department of Justice (DOJ) and agreed to by the American Association of Motor Vehicle Administrators (AAMVA) solely to assist you with the accounting records of the National Motor Vehicle Title Information System (NMVTIS), as operated by AAMVA, for the year ended September 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are presented in Attachment I.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of AAMVA, and is not intended to be and should not be used by anyone other than this specified party. However, we understand that a copy of this report will be provided to DOJ.



Raffa, P.C.

Washington, DC
May 20, 2015

**AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
AGREED-UPON PROCEDURES APPLIED TO NATIONAL MOTOR VEHICLE TITLE
INFORMATION SYSTEM (NMVTIS) PROGRAM**

ATTACHMENT I

PROCEDURES AND FINDINGS

Our procedures as described in our engagement letter with the American Association of Motor Vehicle Administrators (AAMVA) dated December 10, 2014, and the results are described below:

A. GENERAL

Procedures:

1. Perform inquiry procedures to obtain an understanding of NMVTIS expenditures and identify all fees collected by AAMVA in relation to NMVTIS.
2. Obtain an understanding of internal controls over the NMVITS program by reviewing internal control policies and procedures and by performing walkthroughs of key controls over NMVTIS program revenue and expenditures.
3. Perform inquiry procedures, including the review of any applicable grants and contracts, to determine whether AAMVA has complied with laws, regulations and the provisions of contracts and grant agreements associated with its NMVITIS program.
4. Perform inquiry and analytical procedures to determine if NMVTIS revenues and expenses are separately identified and tracked within AAMVA's accounting system or records.
5. Perform inquiry and analytical procedures to determine if individual accounts or cost centers are established to control the NMVTIS funds.
6. Perform procedures to verify that amounts charged to the NMVTIS program, as reported in the NMVTIS program financial statements, are based on actual costs, which were fairly allocated and reasonable.

Results and Findings:

1. We had discussions with the Chief Financial Officer (CFO) and the Accounting Manager to obtain an understanding of the NMVTIS program, how the fees collected by AAMVA are determined and the type of expenses incurred on the program.
2. We obtained and reviewed AAMVA's financial policies and procedures related to cash receipts, cash disbursements, payroll and financial reporting process. We identified the key controls and performed walkthroughs of those internal controls to further our understanding of AAMVA's control environment. The financial reporting of AAMVA's programs, including the NMVTIS program, is subject to these same key financial reporting processes and controls.

In conjunction with other attest services provided to AAMVA for the year ended September 30, 2014, we noted a control deficiency that impacted the NMVTIS program. Specifically, we noted that there were certain indirect costs benefiting the entire organization or a specific set of programs that were being treated as direct costs of only one program. Management reevaluated how certain cost pools were being allocated to programs and reallocated expenses to better reflect how these cost pools benefited the programs and supporting services. The NMVTIS program expenses included in Exhibit A are reported after management's reallocation.

**AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
AGREED-UPON PROCEDURES APPLIED TO NATIONAL MOTOR VEHICLE TITLE
INFORMATION SYSTEM (NMVTIS) PROGRAM**

ATTACHMENT I

A. GENERAL (CONTINUED)

Results and Findings (continued):

3. We obtained management's representation that AAMVA has complied with laws, regulations and provisions of the contracts and grant agreements that could have a direct or material effect of the NMVTIS program. In addition, we also reviewed contracts and grant agreements applicable to the NMVTIS program as part of these procedures, and other than the finding mentioned in #2 above, we are not aware of any noncompliance by AAMVA.
4. Based on our inquiry of management and review of AAMVA's chart of accounts and reports provided to us during our procedures, we noted that NMVTIS revenues and expenses are separately identified and tracked within AAMVA's accounting system or records.
5. Based on our discussion of management and review of AAMVA's accounting system and of the reports provided to us during our procedures, AAMVA created different cost centers to monitor and control NMVTIS funds.
6. We performed procedures as described below in sections B through E of this attachment to specified assets and liabilities as reported in the NMVTIS schedule of specified assets, liabilities and net assets (attached to this report as Exhibit A); we performed procedures as described below in sections F through K of this attachment to specified revenue and expenses as reported in the NMVTIS schedule of specified revenue and expenses (attached to this report as Exhibit B), as follows:

SPECIFIED ASSETS AND LIABILITIES

B. CASH AND CASH EQUIVALENTS

Procedures:

1. Obtain a client-prepared listing of cash accounts associated with the NMVTIS program as of September 30, 2014.
2. Obtain a copy of the year-end bank reconciliation and bank statements. Review the bank reconciliation for any unusual or significant items.
3. Review the cash receipts and cash disbursements near year-end for any unusual or significant items.

Results and Findings:

1. We obtained a listing of the cash accounts associated with the NMVTIS program and noted that there is only one bank account maintained separately for the NMVTIS program.
2. We obtained and reviewed the bank statement for the month ended September 30, 2014 and noted that the balance reported on the bank statement agrees with the amount reported in AAMVA's general ledger. Therefore, there was no bank reconciliation needed as of September 30, 2014.
3. We reviewed the cash receipts and cash disbursements on the September 2014 bank statement and we found no unusual or significant items.

Continued

**AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
AGREED-UPON PROCEDURES APPLIED TO NATIONAL MOTOR VEHICLE TITLE
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C. WORK IN PROCESS AND FIXED ASSETS

Procedures:

1. Obtain a client-prepared listing of the work in process (if any) and fixed asset accounts associated with the NMVTIS program as of September 30, 2014.
2. Judgmentally select a sample of significant additions/disposals during the year to validate by vouching to supporting authorized cash disbursement documentation.
3. Review depreciation expense for reasonableness and compliance with AAMVA policy.

Results and Findings:

1. We obtained and reviewed the listing of the work in process and fixed asset accounts associated with the NMVTIS program as of September 30, 2014 and noted that the schedule agreed to the detailed general ledger.
2. We selected three additions to work in process and fixed assets during the year. In total, we tested \$37,154, or 59% of total additions to the NMVTIS program for the year ended September 30, 2014. We traced the additions to a supporting calculation of the direct labor, which had been reviewed by the Finance Manager, and charged to activities that were predetermined by AAMVA to be eligible for capitalization. There were no disposals during the year.
3. We obtained and reviewed the depreciation schedule for NMVTIS fixed assets and performed a recalculation of the depreciation expense for the period ending September 30, 2014. We noted that the depreciation expense is reasonable and is in compliance with AAMVA policy. The fixed assets were depreciated using the estimated useful lives determined by AAMVA.

D. OPEN CREDIT – CONSUMER ACCESS

Procedures:

1. Obtain a client-prepared listing of the Open Credit – Consumer Access account associated the with NMVTIS program as of September 30, 2014.
2. Judgmentally select a sample of open credits and test the reasonableness of the credit amount by recreating and comparing the expected balance from the related income account balance and the credit percentage allowed for the program.
3. Scan the schedule for any transactions that appear unusual.

Results and Findings:

1. We obtained and reviewed a detailed listing of the Open Credit – Consumer Access account associated with the NMVTIS program as of September 30, 2014, which comprised the unapplied monthly member credits. The open credits have a vesting period of one year and could only be applied to the members' dues and fees upon approval from the Department of Justice (DOJ).

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D. OPEN CREDIT – CONSUMER ACCESS (CONTINUED)

Results and Findings (continued):

2. We recalculated the March 2014 addition to the Open Credit – Consumer Access account by obtaining the consumer access revenue for the month and multiplying it by 50% to determine the amount of credits the members are eligible to receive. We then allocated the credits to each jurisdiction based on each jurisdiction's consumer access transactions, and we found the allocation of credits to each jurisdiction to be reasonable.
3. We scanned the schedule of open credits and noted that there were no transactions that appear to be unusual.

E. DEFERRED PROGRAM INCOME AND DEFERRED CONTRACT REVENUE

Procedures:

1. Obtain a client-prepared listing of deferred program income and deferred contract revenue associated with the NMVTIS program as of September 30, 2014.
2. Tie opening balances to prior year ending balances and apply analytical procedures to support changes in the account balances during the year.
3. Scan the schedule for any transactions that appear unusual.

Results and Findings:

1. We obtained and reviewed the listing of the deferred program income and deferred contract revenue associated with NMVTIS program as of September 30, 2014 and noted that the schedule agreed to the detailed general ledger.
2. We tied opening balances to prior year ending balances and found no exception. During the year ended September 30, 2014, AAMVA reassessed how it reported the restrictions on programmatic income earned in association with its cooperative agreements with the federal government, including the NMVTIS program, and determined that the reporting of the restrictions required changes to better reflect the nature of the restrictions in accordance with generally accepted accounting principles. As a result, AAMVA recorded an adjustment to decrease deferred revenue by \$2,033,854 and increase temporarily restricted net assets by \$2,033,854 as of September 30, 2013 related to the NMVTIS program.
3. We scanned the schedule of transactions and noted that there were no unusual transactions. The release from temporarily restricted net assets for the period ended September 30, 2014, which amounted to \$7,677 (see Exhibit B), is related to expenses incurred for the NMVTIS annual advisory board meeting held in 2014.

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SPECIFIED REVENUE AND EXPENSES

F. STATE USER FEES, CONSUMER ACCESS FEES AND LEASED LINE FEES

Procedures:

1. Obtain a client-prepared listing associated with NMVTIS program income for the year ended September 30, 2014.
2. Review the schedule of transactions and judgmentally select a sample of these transactions to test the accuracy of the activity in the account.
3. Review monthly billings for NMVTIS and compare them with project summaries.

Results and Findings:

1. We obtained the client-prepared schedule of NMVTIS program revenue and agreed the schedule to the general ledger details without exception. For the year ended September 30, 2014, NMVTIS program income totaled \$4,325,309 (before netting jurisdiction revenue sharing).
2. We reviewed the schedule of transactions and judgmentally select a sample of these transactions to test the accuracy of the activity in the account.
 - a. State user fees – Total state user fees is capped at \$2,500,000 as shown in Exhibit B. It is prorated to the different member states based on the number of registered vehicles per state. We reviewed the allocation of the \$2,500,000 among the states and found it to be reasonable. AAMVA used the information from the U.S. Department of Transportation on the number of registered vehicles per state to determine the allocation of state user fees.

For each state, AAMVA divided the prorated state user fees by twelve (12) months to determine the monthly billing. We selected sixteen monthly billings and compared the amounts billed to the recomputed state fees and we found no exceptions.
 - b. Consumer access fees – These are based on tiered rates charged for each VIN search by the entities such as used car dealers, credit agencies and auto data companies. The rates ranges from \$0.20 to \$1.25 per VIN search. We selected the total billing for consumer access fees for March 2014, consisting of invoices sent to ten companies, totaling \$122,655, and recalculated the invoiced amounts by multiplying the number of searches made by each company for the month of March with the applicable rates, and found no exceptions.
 - c. Leased line fees – Leased line fees pertain to resale of leased line connectivity to access AAMVANet. The fees differ based on the type of the line subscribed to by the customer. We obtained the listing of the leased line fees and judgmentally selected eight transactions to examine. We traced the selections to supporting invoices and payments where applicable, and noted no exceptions.
3. Please refer to the procedures in items a-c above which included reviewing monthly billings.

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G. DIRECT LABOR EXPENSE

Procedures:

1. Obtain a client-prepared listing of direct labor costs associated with the NMVTIS program for the year ended September 30, 2014.
2. Obtain a project costing labor detail report for the year ended September 30, 2014 and compare the monthly direct labor per the contract to the general ledger posting.
3. Scan the schedule for any transactions that are significant or unusual and investigate further as deemed appropriate.

Results and Findings:

1. We obtained the client-prepared listing of direct labor costs associated with the NMVTIS program for the year ended September 30, 2014. We traced the listing to the general ledger details generated from the accounting system and noted no exceptions.
2. We summarized the direct labor costs by employee and selected the two employees with the highest direct labor cost charged to the NMVTIS program. To test the accuracy of direct labor charged to the NMVTIS program, we selected six pay periods to test for each employee and traced the number of hours charged to the NMVTIS program to the electronic timesheets approved by the employees' supervisors, and verified the authorized salary of the employees against Human Resources' schedule of authorized salaries, and to payroll reports. We did not find any exceptions.
3. We scanned the client-prepared listing of direct labor cost associated with the NMVTIS program and we did not find any unusual transactions.

H. JURISDICTIONAL REVENUE SHARING

Procedures:

1. Obtain a client-prepared listing of revenue sharing contra revenue for the NMVTIS program for the year ended September 30, 2014.
2. Test reasonableness of the contra-revenue account by judgmentally sampling transactions to determine accuracy of the activity in the account.
3. Scan the schedule for any transactions that are significant or unusual and investigate further as deemed appropriate.

Results and Findings:

1. We obtained and reviewed the jurisdictional revenue sharing general ledger details for the NMVTIS program for the year ended September 30, 2014.

**AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
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H. JURISDICTIONAL REVENUE SHARING (CONTINUED)

Results and Findings (continued):

2. We recalculated the jurisdiction revenue sharing for March 2014 by multiplying the consumer access revenue for the month by 50% to determine the amount of credits the members are eligible to receive. We then allocated the credits to each jurisdiction based on each jurisdiction's consumer access transactions, and we found the allocation of credits to be reasonable. In addition, we multiplied the 2014 consumer access revenue by 50% to determine the estimated jurisdiction revenue sharing for the year ended September 30, 2014 and we found the jurisdiction revenue sharing amount to be reasonable.
3. We scanned the schedule of jurisdiction revenue sharing and noted that there were no transactions that appear to be unusual.

I. CONTRACTOR LABOR EXPENSE, DATA CENTER EXPENSE AND OTHER DIRECT COSTS

Procedures:

1. Obtain a client-prepared schedule of expenses associated with the NMVTIS program for the year ended September 30, 2014.
2. Review contract labor detail reports, data center expenses, indirect expenses, timesheets, etc. to verify the manner in which expenses are charged to the program.
3. Review support for expenses over \$80,000. Verify that invoices were approved, charged to the correct period and coded to the correct account and projects.

Results and Findings:

1. We obtained the client-prepared listing of expenses charged to the NMVTIS program for the year ended September 30, 2014. We traced the listing to the general ledger details generated from the accounting system and noted no exceptions.
2. We reviewed the listing of expenses and we did not note any unusual items charged to the NMVTIS program. AAMVA charged expenses to the NMVTIS program on an accrual basis.
3. The largest expense categories charged to the NMVTIS program are consulting services, data center expenses, leased lines and data hosting services. There were no individual transactions above \$80,000; however, based on our review of the expenses, data center expenses represent 68% of total other direct costs, or a total amount of \$790,457. We traced twelve data center expenses totaling \$781,282 to approved invoices and payments and we did not find any exceptions. We also tested the allocation of the data center expenses between NMVTIS and other programs benefitting from the same services and we noted that the allocation was reasonable. In addition, we judgmentally selected three additional transactions from other expense categories and traced them to approved invoices and payments and we did not find any exceptions.

**AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
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INFORMATION SYSTEM (NMVTIS) PROGRAM**

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J. DEPRECIATION

Procedures:

1. Obtain a client-prepared listing of depreciation for assets associated with NMVTIS program for the year ended September 30, 2014.
2. Test reasonableness of depreciation expense by scanning the listing of depreciation for reasonableness and investigating any calculated depreciation expense that does not appear reasonable.

Results and Findings:

1. We obtained and reviewed the depreciation expense associated with the NMVTIS program for the year ended September 30, 2014 in conjunction with our review of fixed assets at #2.
2. As discussed in C.3, we performed a recalculation of the depreciation expense for the period ended September 30, 2014 and found depreciation expense to be reasonable and in compliance with AAMVA policy.

K. INDIRECT EXPENSES

Procedures:

1. Obtain a client-prepared listing of indirect expenses allocated to the NMVTIS program for the year ended September 30, 2014.
2. Review the methodology to determine whether the allocation of indirect expenses is reasonable and consistent with the allocations to other programs.
3. Judgmentally select a list of sample expenses from the indirect cost pool to test and review for appropriateness.

Results and Findings:

1. We obtained the client-prepared listing of indirect expenses charged to the NMVTIS program for the year ended September 30, 2014. We traced the listing to the general ledger details generated from the accounting system without exception.
2. AAMVA grew in recent years and additional programs and projects have been added, but management did not reevaluate its allocation of expenses. Certain cost pools that now benefit several programs were not being allocated. Management also reevaluated how certain cost pools were being allocated to programs and reallocated expenses to better reflect how these cost pools benefited the programs and supporting services. The NMVTIS program expenses included in the NMVTIS schedule of specified revenue and expenses (Exhibit B) are reported after management's reallocation.
3. We reviewed the indirect cost pool and the new allocation methodology used by management and found the assumptions used to be reasonable.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
NATIONAL MOTOR VEHICLE TITLE INFORMATION SYSTEM

EXHIBIT A

SCHEDULE OF SPECIFIED ASSETS, LIABILITIES AND NET ASSETS
September 30, 2014

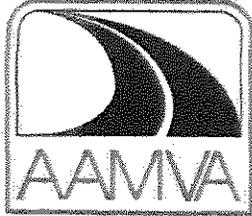
| | |
|-----------------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 1,986,208</u> |
| Property and equipment, net: | |
| Software | \$ 2,450,823 |
| Work in process | 247,316 |
| Less: Accumulated depreciation | <u>(605,765)</u> |
| Total property and equipment, net | <u>\$ 2,092,374</u> |
| LIABILITIES | |
| Open credits – consumer access | <u>\$ 1,254,900</u> |
| NET ASSETS | |
| Temporarily restricted net assets | <u>\$ 2,026,177</u> |

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
NATIONAL MOTOR VEHICLE TITLE INFORMATION SYSTEM

EXHIBIT B

SCHEDULE OF SPECIFIED REVENUE AND EXPENSES
For the Year Ended September 30, 2014

| | |
|--|----------------|
| REVENUE | |
| State user fees | \$ 2,500,000 |
| Consumer access fees | 1,530,611 |
| Less: Jurisdiction revenue sharing | (761,956) |
| Net consumer access fees | 768,655 |
| Leased line fees | 207,995 |
| Other fees | 74,073 |
| Interest income | 4,953 |
| Release of restriction on program income | 7,677 |
| TOTAL REVENUE | 3,563,353 |
| EXPENSES | |
| Labor and benefits | 1,936,128 |
| Data center expenses | 790,457 |
| Depreciation | 350,458 |
| Network infrastructure and computer expenses | 180,715 |
| Consulting and other expenses | 76,345 |
| Total direct expenses | 3,334,103 |
| Indirect costs | 3,784,588 |
| TOTAL EXPENSES | 7,118,691 |
| EXCESS OF REVENUE/(EXPENSES) | \$ (3,555,338) |



**American Association of
Motor Vehicle Administrators
American Association of Motor Vehicle
Administrators and Affiliates**

**Consolidated Financial Statements and Supplemental
Information**

For the Year Ended September 30, 2014



**and
Report Thereon**



AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

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Certified Public Accountants

NDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
American Association of Motor Vehicle Administrators
and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the American Association of Motor Vehicle Administrators and Affiliates (collectively referred to as AAMVA), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AAMVA as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Continued

Other Matters

Emphasis of Matter

As discussed in Note 14 to the consolidated financial statements, AAMVA reassessed how the restrictions on programmatic income earned in association with its cooperative agreements with the federal government are reported in the consolidated financial statements and determined that the reporting of the restrictions required changes to better reflect the nature of the restrictions in accordance with generally accepted accounting principles. As such, deferred revenue, board-designated unrestricted net assets and temporarily restricted net assets were restated as of September 30, 2013.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 19 and 20 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Raffa, P.C.

Washington, DC
April 10, 2015

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2014

ASSETS

Current Assets

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 7,063,153 |
| Receivables, net | 7,310,198 |
| Prepaid expenses | <u>693,069</u> |

Total Current Assets 15,066,420

Investments

| | |
|-----------------------------------|----------------|
| Property and equipment, net | 48,276,652 |
| Deferred compensation investments | 5,714,939 |
| Deposits | <u>296,298</u> |
| | <u>99,744</u> |

TOTAL ASSETS \$ 69,454,053

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 5,441,179 |
| Deferred revenue | 676,448 |
| Agency funds held | 405,401 |
| Deferred leasehold incentive, current | <u>156,942</u> |

Total Current Liabilities 6,679,970

| | |
|--|------------------|
| Deferred compensation | 296,298 |
| Deferred leasehold incentive, net of current | <u>2,197,191</u> |

TOTAL LIABILITIES 9,173,459

Net Assets

| | |
|------------------|-------------------|
| Unrestricted | |
| Undesignated | 22,445,018 |
| Board designated | <u>16,600,000</u> |

Total Unrestricted Net Assets 39,045,018

| | |
|------------------------|-------------------|
| Temporarily restricted | <u>21,235,576</u> |
|------------------------|-------------------|

TOTAL NET ASSETS 60,280,594

TOTAL LIABILITIES AND NET ASSETS \$ 69,454,053

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|----------------------|
| REVENUE AND OTHER SUPPORT | | | |
| Dues, services and fees | \$ 18,718,167 | \$ 6,521,329 | \$ 25,239,496 |
| Government grants and contracts | 12,234,017 | - | 12,234,017 |
| Conferences and workshops | 1,783,910 | - | 1,783,910 |
| Publications and products | 419,029 | - | 419,029 |
| Other income | 6,349 | - | 6,349 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | <u>7,677</u> | <u>(7,677)</u> | <u>-</u> |
| TOTAL REVENUE AND SUPPORT | <u>33,169,149</u> | <u>6,513,652</u> | <u>39,682,801</u> |
| EXPENSES | | | |
| Labor and benefits | 20,672,474 | - | 20,672,474 |
| Contractual services | 9,025,744 | - | 9,025,744 |
| Travel and meetings | 2,977,736 | - | 2,977,736 |
| Occupancy | 1,302,102 | - | 1,302,102 |
| Depreciation and amortization | 1,170,438 | - | 1,170,438 |
| Office automation | 679,452 | - | 679,452 |
| Services and fees | 660,773 | - | 660,773 |
| Communication and promotion | 547,310 | - | 547,310 |
| Office expenses | 506,649 | - | 506,649 |
| Other expenses | <u>308,261</u> | <u>-</u> | <u>308,261</u> |
| TOTAL EXPENSES | <u>37,850,939</u> | <u>-</u> | <u>37,850,939</u> |
| CHANGES IN NET ASSETS FROM OPERATIONS | <u>(4,681,790)</u> | <u>6,513,652</u> | <u>1,831,862</u> |
| Investment income, net | <u>2,575,435</u> | <u>915,124</u> | <u>3,490,559</u> |
| CHANGES IN NET ASSETS | <u>(2,106,355)</u> | <u>7,428,776</u> | <u>5,322,421</u> |
| NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY STATED | 50,726,829 | - | 50,726,829 |
| Prior Period Adjustment | <u>(9,575,456)</u> | <u>13,806,800</u> | <u>4,231,344</u> |
| NET ASSETS, BEGINNING OF YEAR AS RESTATED | <u>41,151,373</u> | <u>13,806,800</u> | <u>54,958,173</u> |
| NET ASSETS, END OF YEAR | <u>\$ 39,045,018</u> | <u>\$ 21,235,576</u> | <u>\$ 60,280,594</u> |

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2014
Increase (Decrease) in Cash and Cash Equivalents

| | |
|---|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 5,322,421 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 1,170,438 |
| Provision for doubtful accounts | 1,250 |
| Net realized and unrealized gains on investments | (2,491,511) |
| (Increase) decrease in assets: | |
| Receivables | (2,119,490) |
| Prepaid expenses | (245,236) |
| Deposits | (47,778) |
| Increase (decrease) in liabilities: | |
| Accounts payable and accrued expenses | 666,987 |
| Deferred revenue | (108,003) |
| Agency funds held | 37,511 |
| Deferred leasehold incentive | <u>(154,666)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>2,031,923</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales and maturities of investments | 26,098,167 |
| Purchases of investments | (26,653,119) |
| Purchases of property and equipment | <u>(1,043,870)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(1,598,822)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 433,101 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>6,630,052</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 7,063,153</u></u> |
| SUPPLEMENTAL INFORMATION | |
| Noncash investing transaction: | |
| Leasehold improvements acquired through lease incentive | <u><u>\$ 2,354,133</u></u> |

The accompanying notes are an integral part of these consolidated financial statements.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended September 30, 2014

1. Organization and Summary of Significant Accounting Policies

Organization

The American Association of Motor Vehicle Administrators (the Association) is an international not-for-profit organization established for the purpose of encouraging uniformity and reciprocity among states and developing educational and training programs related to motor vehicle laws and regulations. The Federal Highway Administration has recognized and designated the Association as the operator of the Commercial Drivers License Information System, an information system mandated by the Commercial Motor Vehicle Safety Act of 1986.

The organization is comprised of five not-for-profit organizations; a national parent organization and four regional subsidiary organizations. The parent organization is the controlling entity, requiring the oversight and consolidation of all financial activities of itself and the four regional organizations. The Regions (which are composed of four distinct geographical areas so designated by the Association) are incorporated as Virginia not-for-profit organizations. The Regions were organized to support and carry out the educational purposes of the Association within their respective regions (specifically in the form of annual conferences). As such, the regions qualify as "supporting organizations" as described in section 509(a)(3) of the Internal Revenue Code.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent organization and the Regions (hereafter collectively referred to as AAMVA). AAMVA has been consolidated due to the presence of common control and economic interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and money market accounts and all highly liquid investments with initial maturities of three months or less.

Receivables

Receivables consist principally of amounts due to AAMVA for dues, network services, user fees, work performed on grants and contracts, and participation in conferences and workshops. No interest is accrued on receivables. AAMVA uses the allowance method to record potentially uncollectible receivables. Management determines the allowance for doubtful accounts based on management's evaluation of the collectability of receivables.

Investments

Investments are comprised of mutual funds. These investments are recorded in the accompanying consolidated financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between market participants at the measurement date. Unrealized gains or losses on

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

investments are determined by the change in fair value at the beginning and end of the reporting period. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Fair Value Measurement

AAMVA follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Fair Value Measurements and Disclosures* for financial assets (and liabilities) measured at fair value on a recurring basis. The FASB ASC topic defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standard established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy under the standard are described as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

All investments and the deferred compensation investments and related liability are measured at fair value on a recurring basis, as disclosed in Note 4.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are recorded at cost. All expenditures for property and equipment of \$2,000 or more are capitalized. Depreciation and amortization on furniture, equipment and software are provided on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are recorded at cost and amortized over the shorter of the remaining lease term or estimated useful life. Costs related to developing internal-use software are capitalized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Accounting for the*

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization (continued)

Costs of Computer Software Developed or Obtained for Internal Use, while costs incurred during the preliminary and post-implementation operation stages are expensed. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization is eliminated from the respective accounts and the resulting gain or loss, if any, is included in revenue and support or expenses in the accompanying consolidated statement of activities.

Agency Funds Held

AAMVA serves as administrator for the Non-Resident Violators Compact and the Social Security Administration, collecting and disbursing funds on their behalf. The balance of funds collected and not disbursed as of September 30, 2014 is reflected as agency funds held in the accompanying consolidated statement of financial position.

Revenue Recognition

AAMVA has cost-reimbursable grants and contracts with U.S. government agencies. Revenue from these grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Direct and indirect expenses incurred, but not yet reimbursed, under these grants are reported as receivables in the accompanying consolidated statement of financial position. Payments received, but not yet expended, for these grants and contracts are reflected as deferred revenue in the accompanying consolidated statement of financial position. AAMVA also has firm fixed-price contracts with U.S. government agencies. Revenue from these contracts is recognized based on the percentage of completion method. Payments received, but not yet earned, for these contracts are reflected as deferred revenue in the accompanying consolidated statement of financial position.

AAMVA has cooperative agreements with federal agencies that allow AAMVA to earn program income from services and fees related to the federally funded activity. In accordance with these agreements, any program income earned in excess of program expenses is to be retained by AAMVA and used to fund future program expenses, primarily information technology system maintenance and upgrades. All programmatic income earned in excess of expenses has been temporarily restricted in accordance with the terms of the agreement until the associated purpose restriction has been satisfied.

Revenue from services and fees is recognized as the services are performed. Revenues billed and collected for which the service or function has not been fulfilled are reflected as deferred revenue in the accompanying consolidated statement of financial position.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended September 30, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue and the related costs associated with conferences and workshops are recognized in the period in which the conference or workshop is held. Accordingly, registration and exhibit fees received in advance of the conference or workshop are recorded as deferred revenue, and expenses paid in advance of the conference or workshop are recorded as prepaid expenses in the accompanying consolidated statement of financial position.

Membership dues are recognized as revenue on a pro-rata basis over the membership period to which the dues relate. Accordingly, dues paid by members in advance of the membership period are reported as deferred revenue in the accompanying consolidated statement of financial position.

Classification of Net Assets

The net assets of AAMVA are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of AAMVA's operations. A portion of the unrestricted net assets has been designated by the Board of Directors for specific projects or purposes which is further described in Note 9.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Functional Allocation of Expenses

The consolidated statement of activities and changes in net assets is presented by natural expense category. The costs of providing the various programs and other activities have been summarized on a functional basis in Note 8. Accordingly, indirect costs have been allocated among the programs and supporting services benefited based on direct salaries or direct program expenses.

Use of Estimates

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measure of Operations

In its consolidated statement of activities, AAMVA includes in its definition of operations all revenues that are integral part of its programs and supporting activities. Investment income is recognized as a non-operating activity.

Continued

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

2. Receivables

Receivables as of September 30, 2014 are comprised of the following:

| | |
|---------------------------------------|---------------------|
| Dues, services and fees | \$ 4,547,271 |
| Government grants and contracts | 2,445,621 |
| Conferences and workshops | 120,458 |
| Other | <u>198,348</u> |
| | 7,311,698 |
| Less: Provision for doubtful accounts | <u>(1,500)</u> |
| Total Receivables, net | <u>\$ 7,310,198</u> |

As of September 30, 2014, receivables totaling \$767,714 were unbilled. All receivables are due within one year. The provision for doubtful accounts is based on management's evaluation of the collectability of receivables.

3. Investments

Investments, at fair value, consisted of the following as of September 30, 2014:

| | |
|------------------------|---------------------|
| Mutual funds: | |
| Equity | \$25,440,816 |
| Fixed income | 15,729,692 |
| Alternative strategies | <u>7,106,144</u> |
| Total Investments | <u>\$48,276,652</u> |

Net investment income is summarized as follows for the year ended September 30, 2014:

| | |
|------------------------------|---------------------|
| Unrealized gains, net | \$ 3,094,889 |
| Interest and dividends | 1,140,791 |
| Investment fees | (141,743) |
| Realized losses, net | <u>(603,378)</u> |
| Total Investment Income, net | <u>\$ 3,490,559</u> |

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

4. Fair Value Measurements

The following table summarizes AAMVA's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014, aggregated by the fair value hierarchy level with which those measurements were made:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------|-------------------|---|---|--|
| Investments: | | | | |
| Mutual funds: | | | | |
| Equity: | | | | |
| Large cap index | \$ 10,936,317 | \$ 10,936,317 | \$ - | \$ - |
| International index | 8,822,120 | 8,822,120 | - | - |
| Mid cap index | 2,898,083 | 2,898,083 | - | - |
| Small cap index | <u>2,784,296</u> | <u>2,784,296</u> | - | - |
| Total Equity | <u>25,440,816</u> | <u>25,440,816</u> | - | - |
| Fixed income: | | | | |
| Total market | 9,161,924 | 9,161,924 | - | - |
| Short term | 2,334,132 | 2,334,132 | - | - |
| World | 2,231,974 | 2,231,974 | - | - |
| Non-traditional | <u>2,001,662</u> | <u>2,001,662</u> | - | - |
| Total Fixed Income | <u>15,729,692</u> | <u>15,729,692</u> | - | - |
| Alternative strategies: | | | | |
| Long/short equity | 2,853,415 | 2,853,415 | - | - |
| Managed futures | 2,037,310 | 2,037,310 | - | - |
| Market neutral | 1,306,227 | 1,306,227 | - | - |
| Multi-alternative | <u>909,192</u> | <u>909,192</u> | - | - |
| Total Alternative Strategies | <u>7,106,144</u> | <u>7,106,144</u> | - | - |
| Total Investments | <u>48,276,652</u> | <u>48,276,652</u> | - | - |

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

4. Fair Value Measurements (continued)

| | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|------------------------------------|---------------------|--|--|--|
| Deferred compensation investments: | | | | |
| Mutual funds: | | | | |
| Equity: | | | | |
| Blended | \$ 248,132 | \$ 248,132 | \$ - | \$ - |
| Foreign large blend | 30,214 | 30,214 | - | - |
| Fixed income: | | | | |
| Intermediate term | <u>17,952</u> | <u>17,952</u> | <u>-</u> | <u>-</u> |
| Total Investments | <u>296,298</u> | <u>296,298</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>\$48,572,950</u> | <u>\$48,572,950</u> | <u>\$ -</u> | <u>\$ -</u> |
| Deferred compensation liability | <u>\$ 296,298</u> | <u>\$ -</u> | <u>\$ 296,298</u> | <u>\$ -</u> |

AAMVA used the following methods and significant assumptions to estimate fair value for assets and liability recorded at fair value:

Mutual funds – Valued at the quoted market price of the fund which represents the net asset value of the share held by the fund at year-end.

Deferred compensation liability – valued based on market value of the underlying deferred compensation plan assets.

5. Property and Equipment

Property and equipment as of September 30, 2014 consisted of the following:

| | |
|---|---------------------|
| Software | \$ 4,874,775 |
| Leasehold improvements | 2,354,133 |
| Equipment | 2,169,882 |
| Software in development | 367,790 |
| Furniture | <u>23,017</u> |
| Total Property and Equipment | 9,789,597 |
| Less: Accumulated depreciation and amortization | <u>(4,074,658)</u> |
| Property and Equipment, net | <u>\$ 5,714,939</u> |

Depreciation and amortization expense for the year ended September 30, 2014 was \$1,170,438.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

6. Deferred Compensation

AAMVA has a 457(b) deferred compensation plan (the 457(b) Plan) for certain employees. The 457(b) Plan provides for benefits payable in a lump sum or over a period of time not to exceed ten years in the event of death, termination of employment or retirement. The 457(b) Plan is intended to be construed and administered in accordance with Section 457(b) of the Internal Revenue Code. AAMVA reserves the right to terminate the 457(b) Plan. The funds for the 457(b) Plan are held in trust by AAMVA in separate accounts for each employee and are invested by the trustees, as permitted by the 457(b) eligible deferred compensation trust documents. As of September 30, 2014, deferred compensation investments and liability of \$296,298 are included in the accompanying consolidated statement of financial position, and represent the cumulative amount of contributions to the 457(b) Plan, as well as accumulated earnings and losses since the 457(b) Plan's inception. Plan investments include equity and fixed income mutual funds, the fair market values of which are included in Note 4.

7. Deferred Revenue

AAMVA's deferred revenue consisted of the following as of September 30, 2014:

| | |
|----------------------------------|-------------------|
| Jurisdiction and membership dues | \$ 398,300 |
| Contract revenue | 205,764 |
| Sponsorship and other | <u>72,384</u> |
| Total Deferred Revenue | <u>\$ 676,448</u> |

8. Functional Expenses

Functional expenses for the year ended September 30, 2014 are as follows:

| | |
|--|----------------------|
| Program Services: | |
| Information Technology | \$ 18,655,963 |
| Member Services and Public Affairs | 7,987,280 |
| Commercial Services and Business Solutions | <u>2,501,124</u> |
| Total Program Services | <u>29,144,367</u> |
| Supporting Services: | |
| General and administrative | <u>8,706,572</u> |
| Total Expenses | <u>\$ 37,850,939</u> |

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

9. Board Designated Net Assets

The Board of Directors has designated unrestricted net assets as follows:

| | |
|----------------------|----------------------|
| NMVTIS Modernization | \$ 10,000,000 |
| Operating reserve | <u>6,600,000</u> |
| | <u>\$ 16,600,000</u> |

National Motor Vehicle Title Information System (NMVTIS) Modernization

During the year ended September 30, 2014, the Board of Directors restricted \$10,000,000 for the NMVTIS modernization work which is expected to be completed during fiscal years 2018 through 2019.

Operating Reserve

The Board of Directors established an operating reserve which is recalculated annually based on six months of budgeted operating reserve expenses. As of September 30, 2014, the balance of the operating reserve was \$6,600,000.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following as of September 30, 2014:

| | |
|----------------|----------------------|
| CDLIS Program | \$ 19,209,399 |
| NMVTIS Program | <u>2,026,177</u> |
| | <u>\$ 21,235,576</u> |

CDLIS Program

Included in software in Note 5 are costs incurred by AAMVA as part of a federally funded program to build the CDLIS software. AAMVA charges users fees for the use of the software. As of September 30, 2014, AAMVA has cumulative unspent program income of \$19,209,399 that is restricted to be used exclusively to operate and maintain CDLIS and to fund future modernization efforts for CDLIS in accordance with the agreement with the U.S. Department of Transportation (DOT). This amount includes allocated investment income totaling \$2,049,626.

NMVTIS Program

Also included in software in Note 5 are costs incurred by AAMVA as part of a federally funded program to build the NMVTIS software. AAMVA charges users fees for the use of the software. As of September 30, 2014, AAMVA has cumulative unspent program income of \$2,026,177 that is restricted to be used exclusively to fund NMVTIS expenses in accordance with the agreement with the U.S. Department of Justice (DOJ).

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

11. Commitments and Contingencies

Operating Lease

AAMVA leased an office space under a noncancelable operating lease that expired on September 30, 2014. In January 2014, the lease was amended to include a new office space in an adjacent building. The lease commences October 1, 2014 and expires in September 30, 2029. Monthly base rent begins at \$98,744, plus a prorated share of basic property operating costs. The lease also contains a fixed escalation clause for increases in the annual minimum rent at a rate of 2.5% per year. Under GAAP, all rental payments, including rent increases, are recognized on a straight-line basis over the term of the lease. The terms of the lease include a tenant allowance of \$2,354,133, which AAMVA used to build out the office space. The tenant allowance is reflected as deferred lease incentive in the accompanying consolidated statement of financial position and is being amortized ratably over the term of the lease.

The following is a schedule of future minimum lease payments as of September 30, 2014:

| <u>For the Year Ending</u> <u>September 30,</u> | |
|--|---------------------|
| 2015 | \$ 1,184,931 |
| 2016 | 1,214,554 |
| 2017 | 1,244,918 |
| 2018 | 1,276,041 |
| 2019 | 1,307,942 |
| Thereafter | <u>15,019,703</u> |
| Total | <u>\$21,248,089</u> |

Rent expense totaled \$1,302,102 for the year ended September 30, 2014, and is included in occupancy expense on the accompanying consolidated statement of activities.

AAMVA also leases office equipment under operating leases. The expense for the office equipment under these operating leases for the year ended September 30, 2014 was \$46,174, and is included as part of office expenses on the accompanying consolidated statement of activities.

The following is a schedule of future minimum lease payments under these equipment leases:

| <u>For the Year Ending</u> <u>September 30,</u> | |
|--|------------------|
| 2015 | \$ 27,982 |
| 2016 | <u>15,262</u> |
| | <u>\$ 43,244</u> |

Continued

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

11. Commitments and Contingencies (continued)

Employment Contracts

AAMVA entered into an employment agreement with an employee that provides for compensation and benefits through August 31, 2017. The employee may terminate the agreement with thirty day's notice. AAMVA may terminate the agreement with cause at any time with no obligation for compensation and benefits beyond the effective date of termination. The agreement allows AAMVA to terminate without cause. In the event of termination without cause, AAMVA is obligated to provide severance equal to the equivalent of continued full compensation and benefits for nine months if the termination occurs in the first year of employment, and for twelve months if the termination occurs in the second or subsequent year of employment.

AAMVA is also obligated to pay medical benefits to a former officer and spouse for the remainder of their lives. Management determined that the impact of recording any remaining liability under this commitment in the accompanying consolidated statement of financial position was immaterial and therefore, a liability was not recorded.

Concentration of Cash

AAMVA maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of September 30, 2014, AAMVA had approximately \$4,900,000 composed of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$4,100,000. AAMVA monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

Office of Management and Budget Circular A-133 Audit

AAMVA has instructed its independent auditors to audit its applicable federal programs for the year ended September 30, 2014, in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until the audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or pass-through agencies of the independent auditor's reports for 2014 will not have a material effect on AAMVA's consolidated financial position as of September 30, 2014 or its results of operations for the year then ended.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government agreements are calculated using provisional rates that permit the recovery of indirect costs. These rates are subject to audit on an annual basis by AAMVA's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery billed in excess of the actual rates or that may allow for additional billings for unbilled indirect costs.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

11. Commitments and Contingencies (continued)

The U.S. Department of Transportation – Federal Motor Carrier Safety Administration (FMCSA) audits costs related to AAMVA's U.S. Federal Government funds, in accordance with Circular A-122, issued by the OMB. FMCSA has yet to audit the rates for the year ended September 30, 2014. Management believes that matters arising from the FMCSA's review of the independent auditor's reports for 2014 will not have a material effect on AAMVA's consolidated financial position as of September 30, 2014 or its results of operations for the year then ended.

12. Retirement Plan

AAMVA has a defined contribution 401(k) plan which provides retirement benefits to its employees. AAMVA matches up to 4% of each participant's annual salary based on the participant's contribution. In accordance with the 401(k) plan, AAMVA may also provide an additional discretionary contribution to plan participants. For the year ended September 30, 2014, the discretionary contribution was 4% of each participant's annual salary. During the year ended September 30, 2014, AAMVA contributed \$566,883 in matching contributions and made a discretionary contribution of \$645,326 to the plan.

13. Income Taxes

The Association is exempt from the payment of taxes on income other than net unrelated business income taxes under Section 501(c)(3) of the Internal Revenue Code. The Regions are exempt from the payment of taxes on income other than net unrelated business income taxes under Section 509(a)(3) of the Internal Revenue Code. For the year ended September 30, 2014, no provision for income taxes was made, as AAMVA had no net material unrelated business income.

AAMVA follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. AAMVA performed an evaluation of uncertain tax positions for the year ended September 30, 2014, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of September 30, 2014, the statute of limitations for tax years ended September 30, 2011 through September 30, 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which AAMVA files tax returns. It is AAMVA's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2014, AAMVA had no accruals for interest and/or penalties.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2014

14. Prior Period Adjustments

During the year ended September 30, 2014, AAMVA reassessed how the restrictions on programmatic income earned in association with its cooperative agreements with the federal government, which is described in Notes 1 and 10 of the consolidated financial statements, are reported in the consolidated financial statements and determined that the reporting of the restrictions required changes to better reflect the nature of the restrictions in accordance with generally accepted accounting principles. As a result, AAMVA recorded an adjustment to decrease deferred revenue by \$4,231,344, decrease board designated unrestricted net assets by \$8,440,954, decrease unrestricted net assets by \$1,134,502, and increase temporarily restricted net assets by \$13,806,800 as of September 30, 2013.

15. Subsequent Events

Subsequent events have been evaluated through April 10, 2015 which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the consolidated financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

September 30, 2014

| | AAMVA | REGION I | REGION II | REGION III | REGION IV | SUBTOTAL | ELIMINATION | TOTAL |
|--|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|-------------------|----------------------|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and cash equivalents | \$ 6,494,232 | \$ 224,669 | \$ 192,863 | \$ 98,862 | \$ 52,527 | \$ 7,063,153 | \$ - | \$ 7,063,153 |
| Receivables, net | 7,212,590 | 79,157 | 1,600 | 13,851 | 3,000 | 7,310,198 | - | 7,310,198 |
| Due from affiliates | 2,400 | 5,060 | 60 | 60 | 569 | 8,149 | (8,149) | - |
| Prepaid expenses | 662,773 | 2,231 | 3,365 | 2,132 | 22,568 | 693,069 | - | 693,069 |
| Total Current Assets | 14,371,995 | 311,117 | 197,888 | 114,905 | 78,664 | 15,074,569 | (8,149) | 15,066,420 |
| Investments | 46,999,310 | 145,114 | 367,472 | 258,571 | 506,185 | 48,276,652 | - | 48,276,652 |
| Property and equipment, net | 5,714,939 | - | - | - | - | 5,714,939 | - | 5,714,939 |
| Deferred compensation investments | 296,298 | - | - | - | - | 296,298 | - | 296,298 |
| Deposits | 99,744 | - | - | - | - | 99,744 | - | 99,744 |
| TOTAL ASSETS | \$ 67,482,286 | \$ 456,231 | \$ 565,360 | \$ 373,476 | \$ 584,849 | \$ 69,462,202 | \$ (8,149) | \$ 69,454,053 |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts payable and accrued expenses | \$ 5,409,719 | \$ 26,148 | \$ 5,312 | \$ - | \$ - | \$ 5,441,179 | \$ - | \$ 5,441,179 |
| Deferred revenue | 616,445 | - | - | 60,003 | - | 676,448 | - | 676,448 |
| Due to affiliates | 749 | - | 5,000 | - | 2,400 | 8,149 | (8,149) | - |
| Agency funds held | 405,401 | - | - | - | - | 405,401 | - | 405,401 |
| Deferred leasehold incentive, current | 156,942 | - | - | - | - | 156,942 | - | 156,942 |
| Total Current Liabilities | 6,589,256 | 26,148 | 10,312 | 60,003 | 2,400 | 6,688,119 | (8,149) | 6,679,970 |
| Deferred compensation | 296,298 | - | - | - | - | 296,298 | - | 296,298 |
| Deferred leasehold incentive, net of current | 2,197,191 | - | - | - | - | 2,197,191 | - | 2,197,191 |
| TOTAL LIABILITIES | 9,082,745 | 26,148 | 10,312 | 60,003 | 2,400 | 9,181,608 | (8,149) | 9,173,459 |
| Net Assets | | | | | | | | |
| Unrestricted | | | | | | | | |
| Undesignated | 20,563,965 | 430,083 | 555,048 | 313,473 | 582,449 | 22,445,018 | - | 22,445,018 |
| Board designated | 16,600,000 | - | - | - | - | 16,600,000 | - | 16,600,000 |
| Total Unrestricted Net Assets | 37,163,965 | 430,083 | 555,048 | 313,473 | 582,449 | 39,045,018 | - | 39,045,018 |
| Temporarily Restricted | 21,235,576 | - | - | - | - | 21,235,576 | - | 21,235,576 |
| TOTAL NET ASSETS | 58,399,541 | 430,083 | 555,048 | 313,473 | 582,449 | 60,280,594 | - | 60,280,594 |
| TOTAL LIABILITIES AND NET ASSETS | | | | | | | | |
| NET ASSETS | \$ 67,482,286 | \$ 456,231 | \$ 565,360 | \$ 373,476 | \$ 584,849 | \$ 69,462,202 | \$ (8,149) | \$ 69,454,053 |

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

| | AAMVA | REGION I | REGION II | REGION III | REGION IV | SUBTOTAL | ELIMINATION | TOTAL |
|---|----------------------|-------------------|-------------------|-------------------|-------------------|----------------------|----------------|----------------------|
| REVENUE AND OTHER SUPPORT | | | | | | | | |
| Dues, services and fees | \$ 25,239,496 | \$ - | \$ - | \$ - | \$ - | \$ 25,239,496 | \$ - | \$ 25,239,496 |
| Government grants and contracts | 12,234,017 | - | - | - | - | 12,234,017 | - | 12,234,017 |
| Conferences and workshops | 856,803 | 373,157 | 317,100 | - | 239,350 | 1,786,410 | (2,500) | 1,783,910 |
| Publications and products | 419,029 | - | - | - | - | 419,029 | - | 419,029 |
| Other income | 1,183 | - | - | 57 | 5,109 | 6,349 | - | 6,349 |
| TOTAL REVENUE AND SUPPORT | 38,750,528 | 373,157 | 317,100 | 57 | 244,459 | 39,685,301 | (2,500) | 39,682,801 |
| EXPENSES | | | | | | | | |
| Labor and benefits | 20,672,474 | - | - | - | - | 20,672,474 | - | 20,672,474 |
| Contractual services | 9,024,097 | 1,487 | 160 | - | - | 9,025,744 | - | 9,025,744 |
| Travel and meetings | 2,127,484 | 341,537 | 245,343 | 7,857 | 255,515 | 2,977,736 | - | 2,977,736 |
| Occupancy | 1,302,102 | - | - | - | - | 1,302,102 | - | 1,302,102 |
| Depreciation and amortization | 1,170,438 | - | - | - | - | 1,170,438 | - | 1,170,438 |
| Office automation | 679,452 | - | - | - | - | 679,452 | - | 679,452 |
| Services and fees | 598,541 | 30,199 | 24,256 | 1,680 | 6,097 | 660,773 | - | 660,773 |
| Communication and promotion | 530,508 | 8,156 | 8,610 | - | 36 | 547,310 | - | 547,310 |
| Office expenses | 479,282 | 15,657 | 9,966 | - | 1,744 | 506,649 | - | 506,649 |
| Other expenses | 301,873 | 2,144 | - | - | 6,744 | 310,761 | (2,500) | 308,261 |
| TOTAL EXPENSES | 36,886,251 | 399,180 | 288,335 | 9,537 | 270,136 | 37,853,439 | (2,500) | 37,850,939 |
| CHANGES IN NET ASSETS FROM OPERATIONS | 1,864,277 | (26,023) | 28,765 | (9,480) | (25,677) | 1,831,862 | - | 1,831,862 |
| Investment income, net | 3,401,364 | 10,163 | 25,648 | 18,058 | 35,326 | 3,490,559 | - | 3,490,559 |
| CHANGES IN NET ASSETS | 5,265,641 | (15,860) | 54,413 | 8,578 | 9,649 | 5,322,421 | - | 5,322,421 |
| NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY STATED | 48,902,556 | 445,943 | 500,635 | 304,895 | 572,800 | 50,726,829 | - | 50,726,829 |
| Prior Period Adjustment | 4,231,344 | - | - | - | - | 4,231,344 | - | 4,231,344 |
| NET ASSETS, BEGINNING OF YEAR AS RESTATED | 53,133,900 | 445,943 | 500,635 | 304,895 | 572,800 | 54,958,173 | - | 54,958,173 |
| NET ASSETS, END OF YEAR | \$ 58,399,541 | \$ 430,083 | \$ 555,048 | \$ 313,473 | \$ 582,449 | \$ 60,280,594 | \$ - | \$ 60,280,594 |