



**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, 2015



**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 and Affiliates

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, 2015. 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
February 23, 2016

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 October 2, 2015, 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 NMVTIS 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 NMVTIS 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 Controller to confirm our 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. We did not find any issues related to AAMVA's financial policies and procedures.
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 to the NMVTIS program. In addition, we reviewed contracts and grant agreements applicable to the NMVTIS program as part of these procedures and we are not aware of any noncompliance by AAMVA.

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A. GENERAL (CONTINUED)

Results and Findings (continued):

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), and 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, 2015.
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, 2015 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, 2015.
3. We reviewed the cash receipts and cash disbursements on the September 2015 and October 2015 bank statements, and we found no unusual or significant items.

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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, 2015.
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, 2015 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 \$69,499 or 61% of total additions to the NMVTIS program for the year ended September 30, 2015. 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 year ended September 30, 2015. We noted that the depreciation expense is reasonable and computed 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 with the NMVTIS program as of September 30, 2015.
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, 2015, 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 May 2015 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. TEMPORARILY RESTRICTED NET ASSETS

Procedures:

1. Obtain a client-prepared listing of temporarily restricted net assets related to NMVTIS as of and for the year ended September 30, 2015.
2. Test the NMVTIS program income allocated to NMVTIS for accuracy and reasonableness.
3. Scan the schedule for any transactions that appear unusual.

Results and Findings:

1. We obtained and reviewed the listing of temporarily restricted net assets associated with the NMVTIS program as of September 30, 2015 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. The release from temporarily restricted net assets for the period ended September 30, 2015, which amounted to \$34,060 (see Exhibit B), is related to expenses incurred for the NMVTIS annual advisory board meeting held in 2015.
3. We scanned the schedule of transactions and noted that there were no unusual transactions.

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, 2015.
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.

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F. STATE USER FEES, CONSUMER ACCESS FEES AND LEASED LINE FEES (CONTINUED)

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, 2015, NMVTIS program income before jurisdiction revenue sharing totaled \$4,906,818.
2. We reviewed the schedule of transactions and judgmentally selected 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 \$2,772,530 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 \$2,772,530 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 six monthly billings and one annual payment, and compared the amounts billed to the recomputed state fees, and found no exceptions.
 - b. Consumer access fees – Consumer access fees 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 three sample billings from June 2015 and three sample billings from November 2015, consisting of invoices sent to six different companies, totaling \$132,382, and recalculated the invoiced amounts by multiplying the number of searches made by each company for the month of June and November 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 three 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 include our review of a sample of 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, 2015.
2. Obtain a project costing labor detail report for the year ended September 30, 2015 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, 2015. 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 two employees with the highest direct labor cost charged to the NMVTIS program who were not tested in the previous year. 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 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, 2015.
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, 2015.

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H. JURISDICTIONAL REVENUE SHARING (CONTINUED)

Results and Findings (continued):

2. We recalculated the jurisdiction revenue sharing for May 2015 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 2015 consumer access revenue by 50% to determine the estimated jurisdiction revenue sharing for the year ended September 30, 2015, 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. CONSULTING, 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, 2015.
2. Review consulting invoices, 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 \$60,000. 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, 2015. 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 data center expenses, network infrastructure and computer expenses and consulting services. There were no individual transactions above \$60,000; however, based on our review of the expenses, data center expenses represent 32% of total other direct costs, or a total amount of \$571,394. We traced five data center expenses totaling \$298,858 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 two additional transactions from other expense categories and traced them to approved invoices and payments, and we did not find any exceptions.

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J. DEPRECIATION

Procedures:

1. Obtain a client-prepared listing of depreciation for assets associated with the NMVTIS program for the year ended September 30, 2015.
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, 2015 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 year ended September 30, 2015 and found depreciation expense to be reasonable and that the calculation is 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, 2015.
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, 2015. We traced the listing to the general ledger details generated from the accounting system without exception.
2. We reviewed the methodology of the indirect expense allocation as it relates to the NMVTIS program and noted that it is consistent across AAMVA's other programs. AAMVA utilizes the allocator function of its accounting software to record indirect costs based on provisional rates directly to projects. At the end of each month, AAMVA records a true-up entry to record the actual indirect costs to projects. We recalculated the provisional indirect costs charged to NMVTIS and noted no exception.
3. From the indirect cost pool, we reviewed the allocation of the IT Service Center indirect cost pool of \$334,608 to NMVTIS for the month of May 2015 and found the amount and the allocation methodology to be reasonable and appropriate.

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, 2015

ASSETS

Cash and cash equivalents \$ 1,990,184

Property and equipment, net:

Software \$ 2,772,485

Less: Accumulated depreciation (957,025)

Total property and equipment, net \$ 1,815,460

LIABILITIES

Open credits – consumer access \$ 1,928,481

NET ASSETS

Temporarily restricted net assets \$ 1,992,117

**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, 2015**

REVENUE	
State user fees	<u>\$ 2,772,530</u>
Consumer access fees	1,886,877
Less: Jurisdiction revenue sharing	<u>(942,172)</u>
Net consumer access fees	944,705
Leased line fees	129,017
Other fees	80,358
Interest income	3,976
Release of restriction on program income	<u>34,060</u>
 TOTAL REVENUE	 <u>3,964,646</u>
EXPENSES	
Labor and benefits	1,785,131
Data center expenses	571,394
Depreciation	351,260
Network infrastructure and computer expenses	157,274
Consulting	73,428
Other expenses	<u>6,395</u>
Total direct expenses	2,944,882
Indirect costs	<u>3,426,584</u>
 TOTAL EXPENSES	 <u>6,371,466</u>
 EXCESS OF REVENUE/(EXPENSES)	 <u>\$ (2,406,820)</u>



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, 2015

(With Summarized Financial Information for the Year Ended September 30, 2014)



**and
Report Thereon**



**Reports Required in Accordance with
Office of Management and Budget Circular A-133**

For the Year Ended September 30, 2015



AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

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Certified Public Accountants

INDEPENDENT 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, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, 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

Report on Summarized Comparative Information

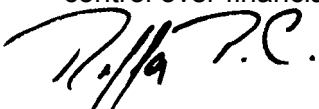
We have previously audited AAMVA's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental 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. The accompanying schedule of expenditures of federal awards on page 25, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2016 on our consideration of AAMVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAMVA's internal control over financial reporting and compliance.



Raffa, P.C.

Washington, DC
February 23, 2016

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2015

(With Summarized Financial Information as of September 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,947,798	\$ 7,063,153
Receivables, net	9,019,834	7,310,198
Prepaid expenses	<u>968,853</u>	<u>693,069</u>
Total Current Assets	23,936,485	15,066,420
Investments	47,931,020	48,276,652
Property and equipment, net	4,776,063	5,714,939
Deferred compensation investments	266,808	296,298
Deposits	<u>99,744</u>	<u>99,744</u>
TOTAL ASSETS	<u>\$ 77,010,120</u>	<u>\$ 69,454,053</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,133,759	\$ 5,441,179
Deferred revenue	131,327	676,448
Agency funds held	398,409	405,401
Deferred leasehold incentive, current	<u>214,919</u>	<u>156,942</u>
Total Current Liabilities	6,878,414	6,679,970
Deferred compensation	266,808	296,298
Deferred leasehold incentive, net of current	1,799,446	2,197,191
Deferred rent	<u>1,337,544</u>	<u>-</u>
TOTAL LIABILITIES	<u>10,282,212</u>	<u>9,173,459</u>
Net Assets		
Unrestricted		
Undesignated	22,656,236	22,445,018
Board-designated	<u>16,600,000</u>	<u>16,600,000</u>
Total Unrestricted Net Assets	39,256,236	39,045,018
Temporarily restricted	<u>27,471,672</u>	<u>21,235,576</u>
TOTAL NET ASSETS	<u>66,727,908</u>	<u>60,280,594</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 77,010,120</u>	<u>\$ 69,454,053</u>

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

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

(With Summarized Financial Information for the Year Ended September 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
REVENUE AND SUPPORT				
Dues, services and fees	\$ 20,229,200	\$ 5,857,742	\$ 26,086,942	\$ 25,239,496
Government grants and contracts	16,094,240	-	16,094,240	12,234,017
Conferences and workshops	1,756,752	-	1,756,752	1,783,910
Publications and products	315,946	-	315,946	419,029
Other income	3,612	-	3,612	6,349
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>571,612</u>	<u>(571,612)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>38,971,362</u>	<u>5,286,130</u>	<u>44,257,492</u>	<u>39,682,801</u>
EXPENSES				
Labor and benefits	21,700,665	-	21,700,665	20,672,474
Contractual services	8,322,349	-	8,322,349	9,025,744
Travel and meetings	2,886,027	-	2,886,027	2,977,736
Occupancy	1,090,183	-	1,090,183	1,302,102
Depreciation and amortization	1,207,876	-	1,207,876	1,170,438
Office automation	876,959	-	876,959	679,452
Office expenses	567,912	-	567,912	506,649
Services and fees	503,391	-	503,391	660,773
Communication and promotion	451,415	-	451,415	547,310
Other expenses	<u>481,395</u>	<u>-</u>	<u>481,395</u>	<u>308,261</u>
TOTAL EXPENSES	<u>38,088,172</u>	<u>-</u>	<u>38,088,172</u>	<u>37,850,939</u>
CHANGES IN NET ASSETS FROM OPERATIONS	883,190	5,286,130	6,169,320	1,831,862
Investment income (loss), net	<u>(671,972)</u>	<u>949,966</u>	<u>277,994</u>	<u>3,490,559</u>
CHANGES IN NET ASSETS	211,218	6,236,096	6,447,314	5,322,421
NET ASSETS, BEGINNING OF YEAR	<u>39,045,018</u>	<u>21,235,576</u>	<u>60,280,594</u>	<u>54,958,173</u>
NET ASSETS, END OF YEAR	<u>\$ 39,256,236</u>	<u>\$ 27,471,672</u>	<u>\$ 66,727,908</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, 2015

(With Summarized Financial Information for the Year Ended September 30, 2014)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,447,314	\$ 5,322,421
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,207,876	1,170,438
Provision for doubtful accounts	193,094	1,250
Loss from write-off and disposal of property and equipment	81,557	-
Net realized and unrealized losses (gains) on investments	1,036,666	(2,491,511)
(Increase) decrease in assets:		
Receivables	(1,902,730)	(2,119,490)
Prepaid expenses	(275,784)	(245,236)
Deposits	-	(47,778)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	692,580	666,987
Deferred revenue	(545,121)	(108,003)
Agency funds held	(6,992)	37,511
Deferred leasehold incentive	(269,743)	(154,666)
Deferred rent	1,337,544	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,996,261</u>	<u>2,031,923</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	49,484,455	26,098,167
Purchases of investments	(50,175,489)	(26,653,119)
Purchases of property and equipment	<u>(420,582)</u>	<u>(1,043,870)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,111,616)</u>	<u>(1,598,822)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,884,645	433,101
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,063,153</u>	<u>6,630,052</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 13,947,798</u></u>	<u><u>\$ 7,063,153</u></u>
SUPPLEMENTAL INFORMATION		
Noncash investing transaction:		
Leasehold improvements acquired through lease incentive	<u><u>\$ -</u></u>	<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, 2015

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 collectibility of receivables.

Investments

Investments are comprised of mutual funds, certificates of deposits and corporate bonds. 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 investments are determined by the change in fair value at the

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended September 30, 2015

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

Investments (continued)

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 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 FASB ASC Topic *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, while

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

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

Property and Equipment and Related Depreciation and Amortization (continued)

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, 2015 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 contacts 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, 2015

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 8.
- 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 7. 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 GAAP 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.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

2. Receivables

Receivables as of September 30, 2015 are comprised of the following:

Dues, services and fees	\$ 4,777,439
Government grants and contracts	4,236,283
Other	<u>164,485</u>
Total Receivables	9,178,207
Less: Allowance for Doubtful Accounts	<u>(158,373)</u>
Receivables, Net	<u>\$ 9,019,834</u>

As of September 30, 2015, unbilled receivables from government grants and contracts totaled \$1,668,999. All receivables are due within one year. The allowance for doubtful accounts is based on management's evaluation of the collectibility of receivables.

3. Investments

Investments, at fair value, consisted of the following as of September 30, 2015:

Mutual funds:	
Equity	\$ 14,529,520
Fixed income	10,726,538
Alternative strategies	4,379,682
Certificates of deposit	13,739,383
Corporate bonds	<u>4,555,897</u>
Total Investments	<u>\$47,931,020</u>

Net investment income is summarized as follows for the year ended September 30, 2015:

Unrealized loss, net	\$ (6,477,592)
Realized gains, net	5,440,926
Interest and dividends	1,439,883
Investment fees	<u>(125,223)</u>
Total Investment Income	<u>\$ 277,994</u>

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

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, 2015, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Total 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>
Investments:				
Mutual funds:				
Equity:				
Large cap index	\$ 10,038,916	\$ 10,038,916	\$ -	\$ -
International index	2,715,229	2,715,229	-	-
Small cap index	901,238	901,238	-	-
Mid cap index	<u>874,137</u>	<u>874,137</u>	-	-
Total Equity	<u>14,529,520</u>	<u>14,529,520</u>	-	-
Fixed income:				
Total bond	3,814,729	3,814,729	-	-
Short term	3,739,299	3,739,299	-	-
Non-traditional	2,030,234	2,030,234	-	-
World	<u>1,142,276</u>	<u>1,142,276</u>	-	-
Total Fixed Income	<u>10,726,538</u>	<u>10,726,538</u>	-	-
Alternative strategies:				
Moderate allocation	1,505,692	1,505,692	-	-
World allocation	1,441,985	1,441,985	-	-
Global real estate	<u>1,432,005</u>	<u>1,432,005</u>	-	-
Total Alternative Strategies	<u>4,379,682</u>	<u>4,379,682</u>	-	-
Certificates of deposit	<u>13,739,383</u>	-	<u>13,739,383</u>	-
Corporate bonds	<u>4,555,897</u>	-	<u>4,555,897</u>	-
Total Investments	<u>47,931,020</u>	<u>29,635,740</u>	<u>18,295,280</u>	-

Continued

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

4. Fair Value Measurements (continued)

	Total <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation investments:				
Mutual funds:				
Equity:				
Blended	\$ 224,587	\$ 224,587	\$ -	\$ -
Foreign large blend	26,075	26,075	-	-
Fixed income:				
Intermediate term	<u>16,146</u>	<u>16,146</u>	<u>-</u>	<u>-</u>
Total Investments	<u>266,808</u>	<u>266,808</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$48,197,828</u>	<u>\$29,902,548</u>	<u>\$18,295,280</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ 266,808</u>	<u>\$ -</u>	<u>\$ 266,808</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.

Certificates of deposit – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations while considering the creditworthiness of the issuer.

Corporate bonds – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable characteristics, as provided by a third party using a computerized valuation formula.

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

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

5. Property and Equipment

Property and equipment as of September 30, 2015 consisted of the following:

Software	\$ 5,349,987
Equipment	2,312,389
Leasehold improvements	1,740,564
Furniture	<u>510,314</u>
Total Property and Equipment	9,913,254
Less: Accumulated Depreciation and Amortization	<u>(5,137,191)</u>
Property and Equipment, Net	<u>\$ 4,776,063</u>

Depreciation and amortization expense for the year ended September 30, 2015 was \$1,207,876.

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, 2015, deferred compensation investments and liability of \$266,808 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. Functional Expenses

Functional expenses for the year ended September 30, 2015 are as follows:

Program Services:	
Information Technology	\$ 19,905,813
Member Services and Public Affairs	8,105,791
Commercial Services and Business Solutions	<u>703,815</u>
Total Program Services	28,715,419
Supporting Services:	
General and administrative	<u>9,372,753</u>
Total Expenses	<u>\$ 38,088,172</u>

Continued

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

8. 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, 2015, the balance of the operating reserve was \$6,600,000.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following as of September 30, 2015:

CDLIS Program	\$ 25,479,555
NMVTIS Program	<u>1,992,117</u>
	<u>\$ 27,471,672</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, 2015, AAMVA has cumulative unspent program income of \$25,479,555 that is restricted to be used to operate and maintain CDLIS, fund future modernization efforts for CDLIS, and fund other activities related to CDLIS and other federal transportation program objectives jointly approved by AAMVA and FMCSA in accordance with the agreement with the U.S. Department of Transportation (DOT). This amount includes allocated investment income totaling \$949,966 for the year ended September 30, 2015.

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, 2015, AAMVA has cumulative unspent program income of \$1,992,117 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, 2015

10. Commitments and Contingencies

Operating Lease

AAMVA leases office space under a noncancelable operating lease that expires on 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 and furnish 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, 2015:

<u>For the Year Ending</u> <u>September 30,</u>	
2016	\$ 1,214,554
2017	1,244,918
2018	1,276,041
2019	1,307,942
2020	1,340,640
Thereafter	<u>13,679,063</u>
Total	<u>\$ 20,063,158</u>

Rent expense totaled \$1,090,183 for the year ended September 30, 2015.

AAMVA also leases office equipment under operating leases. The expense for the office equipment under these operating leases for the year ended September 30, 2015 was \$43,465, and is included as part of office expenses in the accompanying consolidated statement of activities. The future minimum lease payments under these equipment leases for the year ending September 30, 2016 is \$15,262.

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 days' 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 a subsequent year of employment.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

10. Commitments and Contingencies (continued)

Employment Contracts (continued)

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 Credit Risk

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, 2015, AAMVA had approximately \$7,300,000 composed of demand deposits, which exceeded the maximum limit insured by the FDIC by approximately \$6,400,000. 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, 2015, 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 2015 will not have a material effect on AAMVA's consolidated financial position as of September 30, 2015 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. 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 years ended September 30, 2015 and 2014. Management believes that matters arising from the FMCSA's review of the independent auditor's reports for 2015 will not have a material effect on AAMVA's consolidated financial position as of September 30, 2015 or its results of operations for the year then ended.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended September 30, 2015

11. 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, 2015, the discretionary contribution was 4% of each participant's annual salary. During the year ended September 30, 2015, AAMVA contributed \$586,504 in matching contributions and made a discretionary contribution of \$673,403 to the plan.

12. 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, 2015, 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, 2015, 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, 2015, the statute of limitations for tax years ended September 30, 2012 through September 30, 2014 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, 2015, AAMVA had no accruals for interest and/or penalties.

13. Reclassifications

Certain reclassifications have been made to the 2014 financial statement balances to conform with the presentation of the 2015 financial statements.

14. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with AAMVA's consolidated financial statements for the year ended September 30, 2014, from which the summarized information was derived.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

15. Subsequent Events

Subsequent events have been evaluated through February 23, 2016 which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in, the consolidated financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
September 30, 2015

	<u>AAMVA</u>	<u>REGION I</u>	<u>REGION II</u>	<u>REGION III</u>	<u>REGION IV</u>	<u>SUBTOTAL</u>	<u>ELIMINATION</u>	<u>TOTAL</u>
ASSETS								
Current Assets								
Cash and cash equivalents	\$ 13,225,645	\$ 307,672	\$ 228,771	\$ 108,976	\$ 76,734	\$ 13,947,798	\$ -	\$ 13,947,798
Receivables, net	8,997,334	2,500	2,500	17,500	-	9,019,834	-	9,019,834
Due from affiliates	-	-	-	-	579	579	(579)	-
Prepaid expenses	951,095	10,720	1,739	972	4,327	968,853	-	968,853
Total Current Assets	23,174,074	320,892	233,010	127,448	81,640	23,937,064	(579)	23,936,485
Investments	46,719,845	142,932	361,947	254,684	451,612	47,931,020	-	47,931,020
Property and equipment, net	4,776,063	-	-	-	-	4,776,063	-	4,776,063
Deferred compensation investments	266,808	-	-	-	-	266,808	-	266,808
Deposits	99,744	-	-	-	-	99,744	-	99,744
TOTAL ASSETS	\$ 75,036,534	\$ 463,824	\$ 594,957	\$ 382,132	\$ 533,252	\$ 77,010,699	\$ (579)	\$ 77,010,120
LIABILITIES AND NET ASSETS								
Current Liabilities								
Accounts payable and accrued expenses	\$ 6,104,971	\$ 27,113	\$ 1,675	\$ -	\$ -	\$ 6,133,759	\$ -	\$ 6,133,759
Deferred revenue	73,826	-	-	57,501	-	131,327	-	131,327
Due to affiliates	579	-	-	-	-	579	(579)	-
Agency funds held	398,409	-	-	-	-	398,409	-	398,409
Deferred leasehold incentive, current	214,919	-	-	-	-	214,919	-	214,919
Total Current Liabilities	6,792,704	27,113	1,675	57,501	-	6,878,993	(579)	6,878,414
Deferred compensation	266,808	-	-	-	-	266,808	-	266,808
Deferred leasehold incentive, net of current	1,799,446	-	-	-	-	1,799,446	-	1,799,446
Deferred rent	1,337,544	-	-	-	-	1,337,544	-	1,337,544
TOTAL LIABILITIES	10,196,502	27,113	1,675	57,501	-	10,282,791	(579)	10,282,212
Net Assets								
Unrestricted								
Undesignated	20,768,360	436,711	593,282	324,631	533,252	22,656,236	-	22,656,236
Board-designated	16,600,000	-	-	-	-	16,600,000	-	16,600,000
Total Unrestricted Net Assets	37,368,360	436,711	593,282	324,631	533,252	39,256,236	-	39,256,236
Temporarily Restricted	27,471,672	-	-	-	-	27,471,672	-	27,471,672
TOTAL NET ASSETS	64,840,032	436,711	593,282	324,631	533,252	66,727,908	-	66,727,908
TOTAL LIABILITIES AND NET ASSETS	\$ 75,036,534	\$ 463,824	\$ 594,957	\$ 382,132	\$ 533,252	\$ 77,010,699	\$ (579)	\$ 77,010,120

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

	<u>AAMVA</u>	<u>REGION I</u>	<u>REGION II</u>	<u>REGION III</u>	<u>REGION IV</u>	<u>TOTAL</u>
REVENUE AND SUPPORT						
Dues, services and fees	\$ 26,086,942	\$ -	\$ -	\$ -	\$ -	\$ 26,086,942
Government grants and contracts	16,094,240	-	-	-	-	16,094,240
Conferences and workshops	887,963	256,450	296,675	83,404	232,260	1,756,752
Publications and products	315,946	-	-	-	-	315,946
Other income	3,612	-	-	-	-	3,612
TOTAL REVENUE AND SUPPORT	<u>43,388,703</u>	<u>256,450</u>	<u>296,675</u>	<u>83,404</u>	<u>232,260</u>	<u>44,257,492</u>
EXPENSES						
Labor and benefits	21,700,665	-	-	-	-	21,700,665
Contractual services	8,322,349	-	-	-	-	8,322,349
Travel and meetings	2,156,103	200,830	199,220	66,111	263,763	2,886,027
Occupancy	1,090,183	-	-	-	-	1,090,183
Depreciation and amortization	1,207,876	-	-	-	-	1,207,876
Office automation	876,959	-	-	-	-	876,959
Office expenses	530,687	15,914	20,601	16	694	567,912
Services and fees	448,772	22,829	23,660	1,640	6,490	503,391
Communication and promotion	435,363	6,861	8,665	-	526	451,415
Other expenses	473,408	1,206	770	600	5,411	481,395
TOTAL EXPENSES	<u>37,242,365</u>	<u>247,640</u>	<u>252,916</u>	<u>68,367</u>	<u>276,884</u>	<u>38,088,172</u>
CHANGES IN NET ASSETS FROM OPERATIONS	6,146,338	8,810	43,759	15,037	(44,624)	6,169,320
Investment income (loss), net	294,153	(2,182)	(5,525)	(3,879)	(4,573)	277,994
CHANGES IN NET ASSETS	6,440,491	6,628	38,234	11,158	(49,197)	6,447,314
NET ASSETS, BEGINNING OF YEAR	<u>58,399,541</u>	<u>430,083</u>	<u>555,048</u>	<u>313,473</u>	<u>582,449</u>	<u>60,280,594</u>
NET ASSETS, END OF YEAR	<u>\$ 64,840,032</u>	<u>\$ 436,711</u>	<u>\$ 593,282</u>	<u>\$ 324,631</u>	<u>\$ 533,252</u>	<u>\$ 66,727,908</u>



Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the American Association of Motor Vehicle Administrators and Affiliates (AAMVA), which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered AAMVA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of AAMVA's internal control. Accordingly, we do not express an opinion on the effectiveness of AAMVA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AAMVA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AAMVA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AAMVA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Raffa, P.C.

Washington, DC
February 23, 2016



Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the American Association of Motor Vehicle Administrators and Affiliates' (AAMVA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of AAMVA's major federal programs for the year ended September 30, 2015. AAMVA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of AAMVA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about AAMVA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of AAMVA's compliance.

Opinion on Each Major Federal Program

In our opinion, AAMVA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of AAMVA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered AAMVA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AAMVA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Raffa, P.C.

Washington, DC
February 23, 2016

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015**

<u>Agency or Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal/ Pass-Through Grant Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF COMMERCE			
National Institute of Standards and Technology:			
Measurement and Engineering Research and Standards	11.609	70NANB12D297	\$ <u>687,697</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Motor Carrier Safety Administration:			
Commercial Driver's License Program Improvement Grant	20.232	FMCDL0120130100	789,462
	20.232	FMCDL0155140100	375,778
	20.232	FMCDL0144130100	374,311
	20.232	FMCDL0121130100	287,741
	20.232	CM-10-9910000000	199,231
	20.232	CD11997SKLSTST	170,883
	20.232	FMCDL0082120100	159,768
	20.232	CM-09-9901CDLIS3	94,280
	20.232	FMCDL0154140100	85,732
	20.232	FMCDL0087120100	77,427
	20.232	FMCDL0119130100	48,799
	20.232	FMCDL0153140100	31,361
	20.232	FMCDL0208	5,793
	20.232	FMCDL0080120100	4,383
	20.232	FMCDL0176140100	2,274
	20.232	FMCDL0143130100	<u>1,585</u>
Total CFDA Number 20.232			<u>2,708,808</u>
National Highway Traffic Safety Administration:			
National Highway Traffic Safety Administration Discretionary Safety Grants	20.614	DTNH2214H00443	274,826
	20.614	DTNH2214H00462	160,688
	20.614	DTNH2209H0025512	<u>1,558</u>
Total CFDA Number 20.614			<u>437,072</u>
Total U.S. Department of Transportation			<u>3,145,880</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,833,577</u>

See accompanying notes to this schedule.

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015**

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

2. Reconciliation of Schedule of Expenditures of Federal Awards to Consolidated Financial Statements

Expenditures of federal awards	\$ 3,833,577
Plus: Fixed-price contracts	<u>12,260,663</u>
Government Grants and Contract Revenue per Consolidated Statement of Activities	<u>\$ 16,094,240</u>

3. Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, AAMVA provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Measurement and Engineering Research and Standards	70NANB12D297	11.609	<u>\$ 545,865</u>

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified Qualified
 Adverse Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major program(s): Unmodified Qualified
 Adverse Disclaimer

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of Major Program(s):

<u>CFDA/Grant Number</u>	<u>Name of Federal Program or Cluster</u>
11.609	Measurement and Engineering Research and Standards
20.232	Commercial Driver's License Program Improvement Grant
20.614	National Highway Traffic Safety Administration Discretionary Safety Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? Yes No

AMERICAN ASSOCIATION OF MOTOR VEHICLE ADMINISTRATORS AND AFFILIATES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.