American Arbitration Association®

INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION® | Mediation.org®

CELEBRATING 90 YEARS of RESOLUTION

2015 ANNUAL REPORT

& FINANCIAL STATEMENTS

MAY 5, 2016 | NEW YORK, NY


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ARTHUR T. VANDERBILT HALL
40 WASHINGTON SQUARE SOUTH
NEW YORK UNIVERSITY SCHOOL OF LAW

AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION® | Mediation.org®

2015 ANNUAL REPORT & FINANCIAL STATEMENTS

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CELEBRATING 90 YEARS of RESOLUTION 1926 - 2016

OUR SHARED MISSION

The American Arbitration Association is dedicated to effective, efficient and economical methods of dispute resolution through education, technology, and solutions-oriented service.

OUR SHARED VISION

The American Arbitration Association will continue to be the global leader in conflict management—built on integrity, committed to innovation and embracing the highest standards of client service in every action.

OUR SHARED **COMMITMENT** TO DIVERSITY

The American Arbitration Association is the global leader in conflict management with core values of integrity and service. Our integrity demands impartial and fair treatment of all people with whom we come in contact, regardless of gender, race, ethnicity, age, religion, sexual orientation or other characterization. Our conflict management services put into practice our goal for the resolution of disputes between parties with different perspectives, experiences and backgrounds.

Because of the breadth of the AAA's work and the global reach of its services, we recognize the importance and contribution of a diverse work force, Roster of Arbitrators and Mediators, and Board, and we are committed to respect and increase diversity in all our endeavors.

OUR SHARED VALUES

INTEGRITY

We develop and practice the highest ethical standards. We communicate openly, honestly and directly. We ensure that the integrity of the ADR process is preserved.

CONFLICT MANAGEMENT

We practice the principles of conflict management and dispute resolution in all aspects of our work. We believe in collaboration and teamwork to accomplish shared goals.

SERVICE

We strive for excellence in all aspects of our work. We take responsibility for our actions, deliver what we promise and lead by example. We take initiative to make things better and are a source of new ideas and innovation.

CELEBRATING
90
YEARS
of
RESOLUTION
1926 - 2016

After nine decades of service, we've never been more committed than we are now to the effective resolution of disputes—serving the public, the parties and the process. As always, my thanks to our committed Board of Directors, our dedicated AAA staff and our expert panel of arbitrators and mediators.

– India Johnson, President & Chief Executive Officer

"With the completion of a new institution of arbitration, the AAA was ready to construct a national system for economic peace and security in domestic affairs and to use this system for international peace and security." *American Arbitration: Its History, Functions and Achievements,* by Frances Kellor.

– Frances Kellor, First woman to hold an AAA executive position

In 2015, as the American Arbitration Association was looking toward its 90th birthday in 2016, the AAA exhibited as much vitality as ever, became even more energized, and demonstrably improved with age. Ninety may seem like an imposing number, but what we do continues to be of great value to all those who look to the AAA and ICDR to provide services that remain the gold standard in the field of alternative dispute resolution. Case activity remained at significant levels and noteworthy initiatives were rolled out throughout the year. The AAA, the ICDR and Mediation.org continued to significantly influence the ADR landscape.

In May, we announced the establishment of the AAA-ICDR Foundation, a separate 501(c)(3) not-for-profit organization that raises funds and provides grants to support research and programs which further the use and improvement of dispute resolution processes worldwide.

In 2015, we revised our Construction Arbitration Rules and Professional Accounting and Related Services Dispute Resolution Rules to better address parties' expectations that arbitration will be more efficient and cost effective than court proceedings. The Construction Rules incorporated a presumption that parties with claims of $100,000 will engage in mediation at some point during the arbitration. We also rolled out Final Offer Arbitration Supplementary Rules that can be used in conjunction with the ICDR's International Arbitration Rules or any of the AAA's rules.

Across all divisions, overall mediation activity—the number of cases in which the parties in arbitration opted for a mediation step—increased a healthy 11% over the prior year's figures. We also centralized our Pro Se cases to two case management centers so that we could enhance our capabilities for administering these cases.

1926 | American Arbitration Association Founded

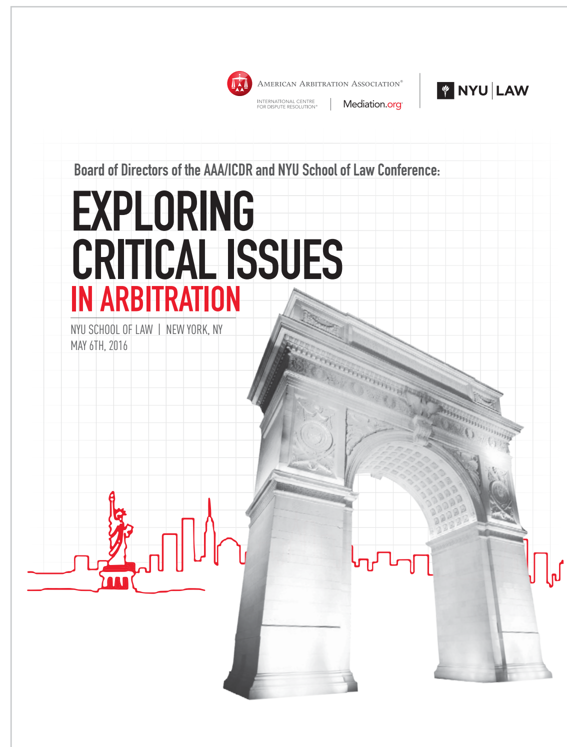
The American Arbitration Association was founded through the consolidation of the Arbitration Society of America and the Arbitration Foundation.

ECONOMY JUSTICE SPEED

Our Board-sponsored educational and leadership event, *Society, Commerce and Dispute Resolution: Goals for Justice and Trade,* produced in partnership with our friends at Fordham Law School, was attended by leading arbitrators, attorneys, academics, and AAA Board members.

As soon as it concluded, preparations began for a 2016 conference, *Exploring Critical Issues in Arbitration,* presented by the AAA and New York University School of Law. Our thanks to Dean Morrison, Franco Ferrari, and NYU Law for collaborating with us on the conference and for hosting the AAA's Meeting of the Board of Directors.

A number of committees and working groups have also been busy. The Judicial Panel Committee explores ways we might better engage the former judges on our panels and encourage their participation in and promotion of the AAA while enhancing their opportunities for service. A number of long-standing and new committees will continue to contribute to the AAA's and ICDR's leadership roles in the ADR field now and in the future. These include the Arbitrator National Advisory Committee, our Large, Complex Case Committee, the AAA National Labor/Management Committee, our National Healthcare Dispute Resolution Advisory Council, our International ADR Committee, and the National Construction Dispute Resolution Committee.
There are many more examples on the following pages of how the AAA continues to recast itself and respond to the needs of the individual case filer as well as the demands imposed by a turbulent global business environment. After nine decades of service, we've never been more committed than we are now to the effective resolution of disputes—serving the public, the parties, and the process. As always, my thanks to our committed Board of Directors, our dedicated AAA staff, and our expert panel of arbitrators and mediators.



– India Johnson, President & Chief Executive Officer

AMERICAN ARBITRATION ASSOCIATION® | INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION®

FOUNDATION®

In May 2015, at the AAA's Annual Meeting, we announced the establishment of the AAA-ICDR Foundation as a separate not-for-profit 501(c)(3) corporation. Since that time, the Foundation Board– consisting of Directors James R. Jenkins, John J. Kerr, Jr., Carolyn Lamm, Francis McGovern, Bruce Meyerson, Edna Sussman (Chair of the Foundation's Board), and India Johnson– along with the support of staff from the AAA-ICDR, has been hard at work in the areas of grant making and fundraising to promote the Foundation's wide-reaching mission, which is to support the use and improvement of dispute resolution processes in the USA and internationally.

In the area of grant making, the Foundation sent out a press release in October 2015 announcing its inaugural round of grant solicitations. In response, the Foundation received 75 grant requests, of which the Grants Committee determined to fund seven. In April 2016, the Foundation announced its next round of grant solicitations that are due in May 2016, with decisions to be made by the end of 2016 as to which solicitations will be funded.

In its first year, the main source of funding for the Foundation came from AAA and ICDR panelists and Board Members. The Foundation's first funding cycle that ended on December 31, 2015 was enormously successful.

The AAA itself committed to contributing $500,000 to the Foundation over a period of no less than five years, and the **AAA's initial contribution combined with donations received from 222 others** resulted in first year contributions totaling nearly

$530,000.

The Foundation will continue its fundraising efforts seeking contributions from donors large and small, in addition to exploring other sources of funding. The AAA-ICDR Foundation is a not-for-profit corporation separate from the AAA, and additional care has been taken to make clear that donations to the Foundation will not impact AAA case administration services, a contributor's status on the AAA's rosters, or eligibility for appointments to cases.

For more information on the AAA-ICDR Foundation and to view its full mission, please visit **www.AAAICDRFoundation.org.**

THE GOVERNANCE 2026 COMMITTEE

In April 2015, India Johnson established the "Governance 2026 Committee" to conduct a detailed review of the AAA's governance structure in light of the fact that it had been a number of decades since the last such review had taken place. In the meantime, New York's not-for-profit laws and the ADR field changed significantly. The name of the Governance 2026 Committee refers to the 100th anniversary of the AAA in 2026, and suggests that the outcomes of the Committee's work will result in a structure that will contribute to another 100 years of AAA leadership. John Townsend served as chair and Melinda Reid Hatton served as vice chair of the Committee.

Following extensive meetings, discussions, consultations, and advice, the principal issue identified by the Governance 2026 Committee was that the governance oversight of the AAA could be better served by reducing the size of the AAA's Board of Directors, which currently stands at roughly 100 members who meet once a year. At the same time, engagement in the AAA and ICDR by the world's experts in arbitration and mediation and other fields would be improved by preserving a large body capable of representing the AAA's and ICDR's various constituencies.

The Committee's work resulted in a report that made a number of recommended governance changes, which were further considered by the AAA's Executive Committee and were then presented to the AAA's Board for approval.

The most significant Committee recommendations include the following:

- The size of the Board should be reduced from the approximately 100 current members to a Board that could range in size from 18 to 21 members.
- A new Council of the American Arbitration Association should be created that would consist of between 80 to 100 members who would exercise the powers of voting members of a New York not-for-profit corporation. A Council of that size would be large enough to include the many constituencies served by the AAA and ICDR, represent their diversity, and provide expanded opportunities for Council members to participate in the work of the AAA and ICDR.
- The limit of three terms of four years each that currently applies to Board members would be shortened to three terms of three years each for members of the Council.
- The committee structure of the AAA would be substantially revised so that there would be a small number of "Committees of the Board" that would be composed only of Directors as required by New York law, and a larger number of "Committees of the Council" that would focus on specific subject matter areas to provide a range of opportunities for Council members and others to participate in the work of the AAA and ICDR.

These proposals have been incorporated into Amended and Restated AAA Bylaws that will be presented for approval to the AAA's Board of Directors at the 2016 Annual Meeting. Upon approval of those Bylaws, the AAA and ICDR are prepared to immediately incorporate the new structure into their activities.

DIVISIONS

- Commercial Division
- Construction, Real Estate and Environmental Division
- Labor, Employment and Elections Division
- ICDR – International
- New York State Insurance Division

COMMERCIAL DIVISION

1968 | Commercial Arbitration Hearing

The American Arbitration Association archive.

To address some of the unique characteristics of accounting disputes and incorporate other changes that reflect user preferences for a streamlined, cost-effective, and efficiently managed arbitration process, in 2015 the Commercial Division revised its Professional Accounting and Related Services Dispute Resolution Rules. The revisions include many updates consistent with the AAA's revised Commercial Rules and also provide guidance on issues related to the exchange of information, and specifically e-discovery. The rules pertaining to production of information respond to parties' expectations that arbitration will be far more efficient than court proceedings and list categories of electronically stored information that should not need to be produced absent a determination by the arbitrator, for good cause shown, that there is a compelling need. The Rules also address various other nuances common to accounting disputes.

In 2015 the Commercial and Construction Divisions rolled out **Master Mediator Panels** for seven geographic regions as well as national Master Mediator Panels for commercial and construction disputes.

These panels consist of mediators who have extensive experience assisting parties in settling large-dollar disputes and who have been independently vetted by attorneys with mediation expertise. In addition to being skilled and experienced, a number of the mediators on these panels write, lecture, or teach extensively on the theory and practice of mediation. Many have won awards for excellence in mediation. Others are former federal or appellate level judges. Information regarding the Master Mediator Panels is provided to all parties who file Large, Complex Cases with the AAA.

300 The AAA has approximately FORMER STATE AND FEDERAL JUDGES on its roster of arbitrators nationwide.

To better engage this important segment of the panel, in 2015 the Judicial Panel Committee was formed.

Among the committee's initiatives is the Judicial Corner, an online site for AAA panelists who are former members of the bench. The site currently has more than 120 former judges registered and has become a locus for discussions regarding important ADR issues. The committee also hosted a well-attended webinar entitled "Developing the AAA Judicial Panel – Working Together."

CONSTRUCTION DIVISION

1954 | Construction Arbitration

A construction arbitration hearing held in AAA headquarters, 1954.
The American Arbitration Association archive.

In 2015, the Construction Division released revised Construction Arbitration Rules. The updated Rules include amendments that directly address the users' stated preferences for a more predictable, cost effective, and tightly managed process that avoids the high cost of litigation. The Rules revision was the product of a multi-year effort that included input from focus groups from across the country that represented the full range of industry sectors, as well as from the AAA's National Construction Dispute Resolution Committee (NCDRC). Other changes include new procedures that address the efficiency and management of the arbitration process, including consolidation and joinder, the preliminary hearing, the exchange and production of information, emergency measures of protection, and a section that provides arbitrators with specific authority to issue orders necessary to ensure a fair and efficient arbitration process.

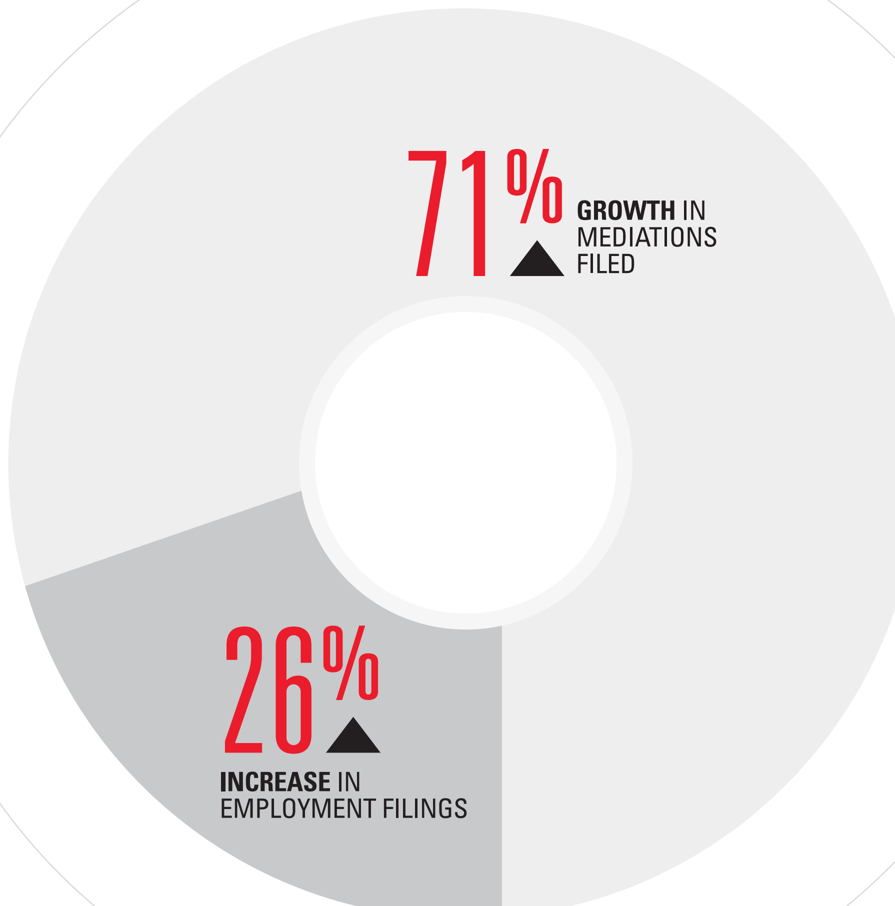
The AAA established the **Construction Mega Project Panel** in 2015. The panel consists of a diverse group of top arbitrators and mediators as rated by counsel who represent construction owners, contractors, design professionals, and insurers with experience in disputes involving significant (mega) construction and infrastructure projects.

Responding to a need in the construction industry for education on alternative dispute resolution, in 2015 the AAA hosted "Keeping Arbitration Lean," a construction conference in Santa Monica, CA, that was attended by more than 100 construction lawyers, in-house counsel, and industry professionals. Agenda topics included Drafting Construction ADR Clauses, Presenting Dispositive Motions in Arbitration, Effective Discovery in Construction Arbitration—What is Really Necessary, and Retooling Arbitration for Mega Project Construction Claims.

1965 | Construction Hearing

The American Arbitration Association archive.

LABOR, EMPLOYMENT AND ELECTIONS DIVISION



1953 | Election Services

The American Arbitration Association archive.

The surge in employment case filings experienced in 2014 continued in 2015 with a 26% increase in filings. There was also growth of 71% in mediations filed or converted from arbitration.

The division continued to be solidly focused on the AAA's commitment to diversity.

44% OF NEW PANELISTS WERE WOMEN OR MINORITIES.

In 2015 the Labor, Employment and Elections Division continued to offer a wide variety of in-person and online webinar training programs and presentations, including a webinar to introduce the AAA's ClauseBuilder® tool to attorneys and human resources professionals. In addition, one-day and multi-day labor arbitration advocacy programs were offered nationwide.

The Division was awarded several high-profile elections involving over

350,000 VOTING MEMBERS.

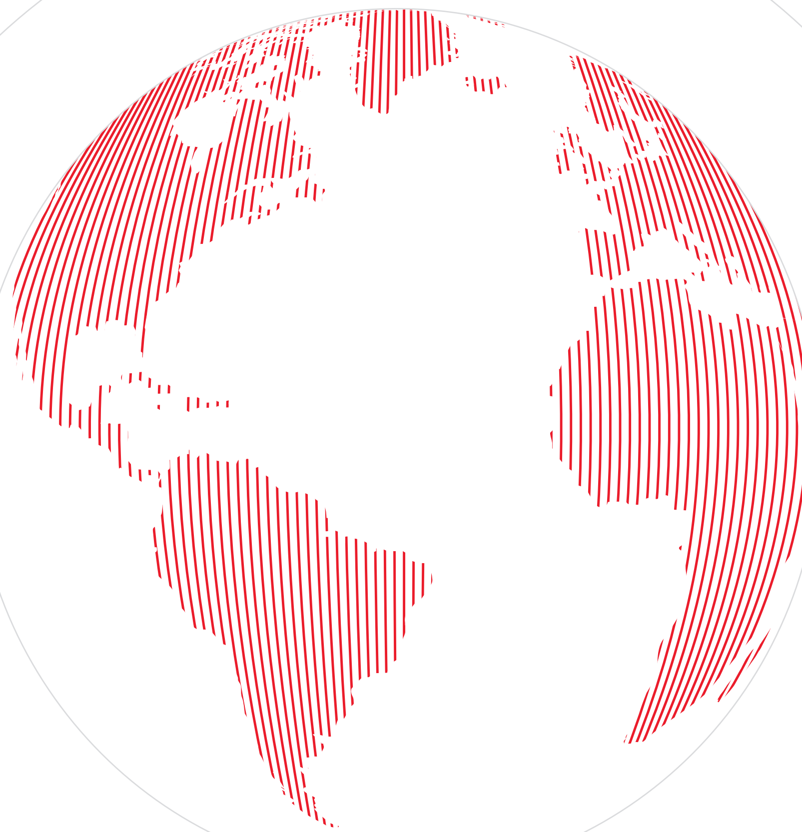
In addition, the Division successfully launched a new web-based voting system that enables touch-screen voting and tabulation from a single location. This new technology, alongside existing ballot scanning, internet and telephone platforms, further differentiates AAA services and options from other elections services providers.

1955 | Labor Management Arbitration

Scene at the televising of a labor management arbitration, 1955.
The American Arbitration Association archive.

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION®

INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION (ICDR)



1954 | International Commercial Arbitration

International Arbitration Dedication, September 22, 1954. Consuls General and representatives of more than 35 countries gather in AAA headquarters in support of the Association's world-wide program of arbitration in foreign trade controversies. *The American Arbitration Association archive.*

In 2015, total international case filings for the year held steady at 1,063, consistent with 2014 figures, of which 97 involved only non-U.S. parties.

The aggregate amount of claims and counterclaims exceeded

$8.2 Billion.

Areas with the greatest number of case filings included construction, franchise, hospitality/travel, insurance, technology, and energy.

The ICDR presence was felt worldwide last year, as it participated in or sponsored events in the U.S., South Korea, Singapore, Colombia, Brazil, Saudi Arabia, Bahrain, Canada, Russia, Austria, Mexico, and the U.K., among others.

ICDR Canada became fully operational in 2015, with an exclusive focus on intra-Canada disputes, a Canada-based panel of arbitrators and mediators, a stand-alone set of ICDR Canada Rules, and a Canadian Advisory Committee.

The ICDR also launched an advisory project with the Riyadh, Jeddah, and Dammam Chambers of Commerce to establish the first Saudi Arabian arbitration center. The center will provide dispute resolution services for intra-Saudi business disputes.

1996 | ICDR Founded

International Centre for Dispute Resolution.
A Division of the American Arbitration Association.

I C D R

STATE INSURANCE CASELOADS

1974 | New York State Insurance Program

American Arbitration Association begins administering arbitrations for No-Fault insurance, uninsured motorist (UM) insurance, and supplementary underinsured motorist (SUM) insurance.

Case filings of New York No-Fault automobile insurance cases continued to increase to record-breaking levels in 2015, with close to

210,000 NEW FILINGS.

15% ▲ **INCREASE** OVER 2014 FIGURES

Twenty arbitrators were added to the panel, raising the number of No-Fault arbitrators to 131. Supplementary Underinsured/Uninsured Motorist (SUM) case filings increased to nearly 2,300 filings.

The New York State Storm Sandy Mediation Program, undertaken in 2013, reached its conclusion in October 2015 after a final influx of close-to-deadline filings. Altogether, over more than two years, the Storm Sandy mediators guided parties to settlements in 63% of the 2,900 cases that required a mediation hearing.

The Minnesota No-Fault office administered 7,012 cases in 2015. It also worked closely with the Minnesota Supreme Court's No-Fault Standing Committee to amend and approve the No-Fault rules in order to address procedural problems and to promote greater efficiency in the No-Fault system.

An extensive recruitment effort to make more arbitrators available to serve parties outside the Minneapolis-St. Paul area resulted in a

14.6% ▲

INCREASE IN THE NUMBERS OF THOSE ARBITRATORS.

CONSUMER ADR

The Consumer Group streamlined its case initiation process and decreased the average number of days from initiation to award from 236 days in 2014 to 229 in 2015. The Consumer Clause Registry continued its growth with 309 companies having registered by the end of 2015. Also in 2015, the AAA began making consumer awards publicly available online in redacted form through Westlaw and LexisNexis.

The number of arbitrators on the AAA's Consumer Panel increased to

603 BY THE END OF THE YEAR.

PRO SE

The Pro Se Arbitration Administration Team was developed in 2015 and began accepting cases where one of the parties is not represented by an attorney.

Consisting of a Director, Manager of ADR Services, and two case administrators, all under the direction of a Vice President, the team administered 510 cases from various AAA Divisions.

510 CASES

Resources available to pro se parties include a video that describes the arbitration process, fact sheets on the AAA's pro se administration procedures, customized form letters tailored for use by pro se parties, and a toll-free number pro se parties can use to contact the Pro Se Arbitration Administration Team.

Mediation.org®

In 2015, Mediation.org achieved its goal of increasing the integration of mediation into the broader range of services offered by the AAA. The number of cases in which parties in arbitration opt for a mediation step had an

11% INCREASE

OVER 2014 FIGURES.

An important component of this increase was the training of key case management staff in effective techniques for presenting the mediation step at different stages of the arbitration process. Additional staff trainings were conducted at regional case management centers to educate staff so that they are more knowledgeable about the AAA's mediation initiatives and service lines.

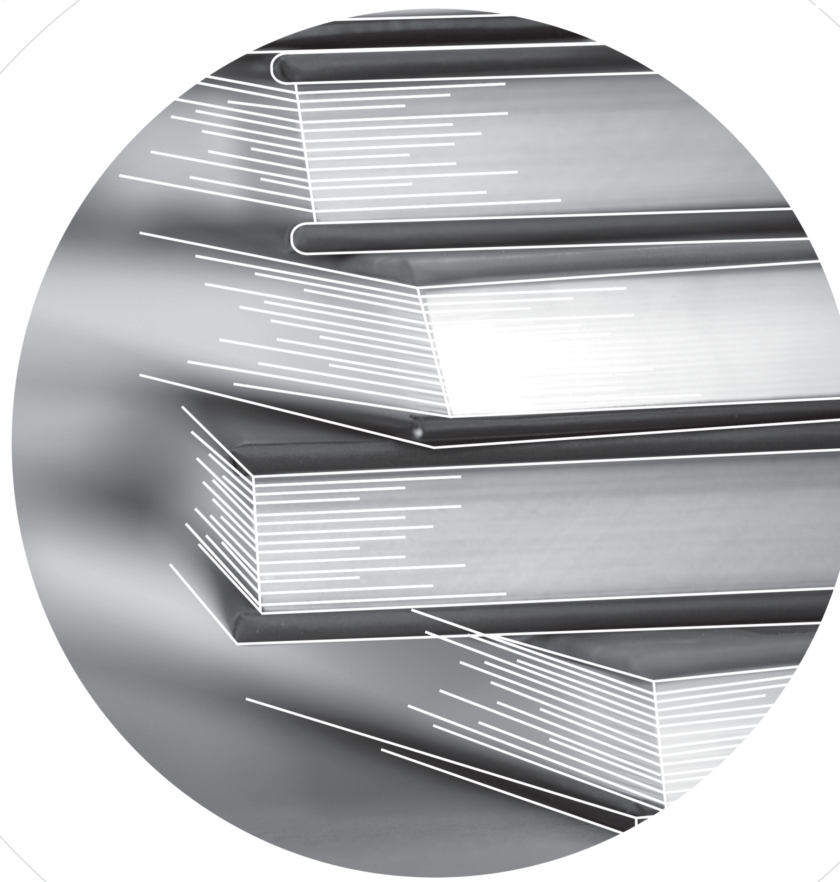
Mediation.org also expanded its mediation education/training course offerings and delivered basic, advanced and industry-specific mediation trainings in multiple venues nationally.

Mediation.org continued to support AAA diversity outreach efforts by recruiting qualified women and minority mediation panelists for emerging mediation caseloads and presenting at diversity-focused ADR conferences nationwide. Mediation.org also partnered with the Publications Department to produce the now-annual mediation focus issue of the *Dispute Resolution Journal*.

1993 | Natural Disaster Mediations

Thousands of insurance claim disputes following Hurricanes Iniki and Andrew in Hawaii and Florida were mediated under AAA case administration.

AAA PUBLICATIONS/ EDUCATION SERVICES/ PANEL RELATIONS



1954 | Dedication of the American Arbitration Association Library

Original library dedication, September 22, 1954.

The American Arbitration Association archive.

Working in partnership with Juris Publishers, in 2015 the Publications Department began the process of creating and issuing new editions of the popular *AAA Handbook* series, to be expanded from eight titles to 11, including new volumes on healthcare arbitration, arbitration clauses, and ICDR practice and procedure. All of the updated and new *Handbooks* will be released throughout 2016. Publications also coordinated the online publication of AAA consumer arbitration awards through Westlaw and LexisNexis, published the *AAA Yearbook On Arbitration & the Law – 27th Edition* in partnership with the University of Houston Law Center and Juris, and issued the annual Special Focus mediation edition of the *Dispute Resolution Journal*.

AAA Education Services presented **36** "real-time" online educational programs in 2015,

including six mediation webinars.

More than 100 pre-recorded webinars were made available through the AAA's website. Also, arrangements with Thomson Reuters/West were finalized for AAA pre-recorded webinars to be offered through the Westlaw online platform.

Education Services oversaw a "refresh" of the AAA's two-day introductory arbitrator "Core" training course, "Arbitration Fundamentals and Best Practices for New AAA Arbitrators." Revisions included updating references to the AAA's various rules; devoting more time to arbitrator ethics and disclosure issues through the use of an enhanced set of scenarios; incorporating a new segment on how to manage issues arising between the preliminary and evidentiary hearings; revamping the segment on award writing to provide a collaborative "deliberation process" exercise and the opportunity to review sample awards for errors and omissions; and incorporating the AAA's ADRCommunity website to provide the opportunity for "classmates" to network and share experiences. "Core" training was administered to 178 arbitrators new to the Panel in 2015.

In 2015 the AAA rolled out "eDiscovery: Arbitration in a Digital World," the 12th topic in the AAA's Arbitrator Continuing Education (A.C.E.) series. Five initial in-person sessions of the course were scheduled around the country: two in New York and one each in Los Angeles, San Francisco, and Dallas. A 90-minute online version of the course was also made available to AAA arbitrators.

Months of preparation commenced in 2015 for the AAA/ICDR/Mediation.org Panel Conference, held February 19-20, 2016 in New Orleans, the first such gathering in more than three years. The Conference provides an opportunity for AAA arbitrators and mediators to hear a wide range of panel presentations as well as network with peers. By mid-December, the conference was fully subscribed.

DIVERSITY

The AAA is committed to the growth of diversity and inclusion within the alternative dispute resolution field. It is our belief that diverse ideas, backgrounds, and experiences work to improve decision making and increase the public trust in the process. In recognition of the AAA's diversity efforts, the AAA was named 2015 Diversity Initiative Honoree by the *New York Law Journal* for promoting diversity in the legal field. In 2015, executives from each of the AAA's divisions actively recruited women and minority candidates who met the criteria established for the AAA Roster of Panelists.

OF THE PANELISTS ADDED TO THE AAA ROSTER IN 2015, **41%** WERE DIVERSE IN TERMS OF GENDER OR ETHNICITY.

The AAA also continued to gain experience with its case management programming that is designed to provide to parties arbitrator lists with at least 20% diversity. This programming is a way to ensure that we list diverse panelists where they meet the parties' requirements and also allow us to identify potential caseloads and regions where we need to recruit diverse panelists.

For arbitrator and mediator lists finalized in 2015, **overall 78%** were at least 20% diverse.

2015 also marked the seventh year of the AAA Higginbotham Fellows Program, which has already produced results with past Fellows making gains in their careers. Nineteen past Fellows have been appointed to the AAA Roster of Panelists, many of whom have already been selected by parties to serve on cases. In addition, in 2015 one past Fellow was selected to join the AAA Board of Directors.

1978 | Women's Arbitrator Development Program

The first class of the Women's Arbitrator Development Program. Photo taken during the first meeting, May 19, 1978. *The American Arbitration Association archive.*

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2015 ANNUAL REPORT

& FINANCIAL STATEMENTS

MAY 5, 2016 | NEW YORK, NY

American Arbitration Association®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
AMERICAN ARBITRATION ASSOCIATION, INC.

We have audited the accompanying consolidated financial statements of American Arbitration Association, Inc. and Subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the Association as of December 31, 2015 and 2014, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

New York, New York
April 25, 2016

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 6,929,000	$ 6,946,000
INVESTMENTS - At Fair Value	104,660,000	97,967,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of $651,000 in 2015 and $685,000 in 2014	16,223,000	13,287,000
OTHER RECEIVABLES, Less allowances for uncollectible accounts of $70,000 in 2015 and $87,000 in 2014	189,000	246,000
PREPAID EXPENSES	2,756,000	2,917,000
INTERNAL-USE SOFTWARE DEVELOPMENT & CONSTRUCTION IN PROGRESS	217,000	154,000
FURNISHINGS, EQUIPMENT, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS - Net	20,753,000	22,472,000
TOTAL ASSETS	$ 151,727,000	$ 143,989,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 68,050,000	$ 64,974,000
Accrued postretirement medical costs	9,197,000	9,942,000
Accrued pension liability	7,661,000	10,133,000
Deferred rent	4,356,000	4,159,000
Deferred revenue	6,245,000	3,805,000
Total Liabilities	95,509,000	93,013,000
COMMITMENTS AND CONTINGENCIES	–	–
UNRESTRICTED NET ASSETS	56,218,000	50,976,000
TOTAL LIABILITIES AND NET ASSETS	$ 151,727,000	$ 143,989,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Administration fees earned:		
Commercial	$ 45,317,000	$ 39,854,000
State insurance	20,757,000	18,088,000
Labor	5,043,000	4,975,000
Elections	2,760,000	3,836,000
Totals	73,877,000	66,753,000
Publications and education	1,646,000	1,736,000
Other operating income	829,000	662,000
Totals	76,352,000	69,151,000
OPERATING EXPENSES		
Administration of tribunals	62,181,000	58,995,000
Elections	2,830,000	3,500,000
Publications and education	1,258,000	1,131,000
General and administration	3,933,000	3,699,000
Net gain on disposal of office leases	–	(830,000)
Totals	70,202,000	66,495,000
Net Operating Income	6,150,000	2,656,000
NON OPERATING INCOME AND EXPENSES		
Interest and dividends on investments - net of fees	2,232,000	3,103,000
Net realized and unrealized losses on investments	(4,258,000)	(193,000)
Loss on disposal of assets	(7,000)	(1,000)
CHANGE IN UNRESTRICTED NET ASSETS BEFORE CHANGES IN NET ASSETS	4,117,000	5,565,000
Pension liability adjustment	495,000	(7,620,000)
Postretirement medical obligation adjustment	630,000	(3,361,000)
CHANGE IN UNRESTRICTED NET ASSETS	5,242,000	(5,416,000)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	50,976,000	56,392,000
UNRESTRICTED NET ASSETS, END OF YEAR	$ 56,218,000	$ 50,976,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,242,000	$ (5,416,000)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,466,000	3,565,000
Bad debt and change in provisions for uncollectible accounts	473,000	938,000
Deferred rent	197,000	238,000
Net realized and unrealized losses on investments	4,258,000	193,000
Gain on office lease disposals	–	(830,000)
Loss on disposal of assets	8,000	1,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(3,409,000)	(4,619,000)
Decrease in other receivables	57,000	62,000
Decrease/(Increase) in prepaid expenses	161,000	(538,000)
Increase in accounts payable and accrued expenses	3,076,000	1,122,000
Increase/(Decrease) in accrued postretirement medical costs	(745,000)	3,025,000
Increase/(Decrease) in accrued pension liability	(2,472,000)	7,422,000
Increase in deferred revenue	2,440,000	908,000
Net cash provided by operating activities	12,752,000	6,071,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(1,602,000)	(3,516,000)
Proceeds from sale of furnishings, equipment, technology and leasehold improvements	1,000	–
Proceeds from sale of investments	45,857,000	10,113,000
Purchase of investments	(56,808,000)	(9,254,000)
Internal use software development and construction in progress	(217,000)	(154,000)
Net cash used in investing activities	(12,769,000)	(2,811,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(17,000)	3,260,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,946,000	3,686,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,929,000	$ 6,946,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business and principles of consolidation:

The accompanying consolidated financial statements include the financial position and operating activities of American Arbitration Association, Inc. ("AAA"), and the Subsidiaries it controls (collectively the "Association"). All inter-company accounts and transactions have been eliminated in consolidation.

AAA is a not-for-profit organization that provides administrative, educational and development services for the widespread use of dispute resolution procedures both domestically and internationally.

Administration fees:

The initial filing fee for commercial cases, which are subject to a minimum fee, is billed at the commencement of the dispute resolution process. Over the next 60 days, which is the time period for refund eligibility, a portion of the refundable initial filing fee is recognized as revenue as services are performed. Under certain limited circumstances, the 60-day time period for refund eligibility is extended for arbitration cases that utilize AAA's mediation services. Based on analysis of current trends, the Association recorded deferred revenue in 2015 and 2014 of $163,000 and $165,000, respectively, which is included in the accompanying consolidated balance sheets and represents the estimated amount of future refunds.

A case service fee is payable in advance prior to the first scheduled hearing. The case service fee is refundable at the conclusion of the case if no hearings have occurred. Case service fee revenue is recognized, net of estimated refunds, as case administration services are provided. Deferred case service fee revenue of $4,253,000 and $2,260,000 as of December 31, 2015 and 2014, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

Registration fees for educational programs may be payable in advance prior to an education program event. Deferred education program registration fees of $415,000 and $153,000 as of December 31, 2015 and 2014, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

A panel maintenance fee is collected from individuals serving on the Association's panel of arbitrators and mediators. The fee is assessed annually on a calendar-year basis. Payments received in advance of the start of the assessment year totaling $812,000 and $885,000 as of December 31, 2015 and 2014, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Filing parties in certain high-volume programs may deposit funds with the Association to be drawn down and applied to invoices as filing fees are invoiced. Such deposits received in advance of demands for arbitration being filed totaling $602,000 and $342,000 as of December 31, 2015 and 2014, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Cash and cash equivalents:

The Association considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents.

Concentrations of credit risk:

Financial instruments, which potentially subject the Association to concentrations of credit risk, include cash and cash equivalents, administration fees receivable, other receivables, and investments (see Note 2). The Association maintains cash and cash equivalents in bank deposit and other accounts, the balances of which exceeded Federally insured limits by $16,381,000 and $15,791,000 as of December 31, 2015 and 2014, respectively. The Association places its cash and cash equivalents with creditworthy, high-quality financial institutions. Credit risk with respect to administration fees receivable is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its administration fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:

Investments are reported at fair value. Cash equivalents included in investments are held for investment purposes. Changes in unrealized investment gains or losses are reported in the consolidated statements of operations and changes in net assets.

Furnishings, equipment, technology and leasehold improvements:

Furnishings, equipment, technology and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the individual asset or the lease term, if shorter than the useful life. The cost of maintenance and repairs is charged to expense as incurred.

Capitalization of software developed for internal use:

The Association capitalizes costs incurred for the development of software for internal use. The cost of development is amortized over the useful lives of the underlying applications, varying from three to ten years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes:

The AAA is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is included in the Association's consolidated financial statements. The Association has no unrecognized tax benefits at December 31, 2015 and 2014. The Association's Federal and state income tax returns prior to fiscal year 2012 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Deferred rent:

Certain of the Association's lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than initial occupancy. Provision has been made for the excess of operating lease rental expense, computed on a straight-line basis over the lease term, over cash rentals paid.

Subsequent events:

The Association has evaluated subsequent events through April 25, 2016, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

NOTE 2 - INVESTMENTS:

Investments at December 31, 2015 and 2014 consist of the following:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	$ 25,687,000	$ 24,566,000	$ 19,255,000	$ 18,925,000
Intermediate Term Bond funds	10,351,000	10,015,000	5,120,000	5,119,000
Inflation-Protected Bond funds	2,314,000	2,443,000	3,206,000	3,468,000
High Yield Bond funds	7,854,000	7,249,000	8,229,000	8,105,000
Emerging Markets Bond funds	4,137,000	3,931,000	4,153,000	3,886,000
International Equities funds	5,876,000	4,931,000	13,467,000	13,251,000
U.S. Equities funds	34,362,000	36,990,000	28,946,000	32,512,000
Emerging Markets Equities funds	8,794,000	8,414,000	5,299,000	5,859,000
Real Estate Investment Trust funds	3,891,000	4,727,000	4,678,000	5,837,000
Cash/Money Market funds	1,394,000	1,394,000	1,005,000	1,005,000
	$ 104,660,000	$ 104,660,000	$ 93,358,000	$ 97,967,000

Interest and dividends on investments are reported net of investment management fees and bank charges of $1,214,000 and $1,038,000 in 2015 and 2014, respectively.

The Association values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. There have been no changes in the methodologies used at December 31, 2015 and 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Financial assets carried at fair value at December 31, 2015 and 2014 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2015 and 2014, are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets.

The Association recognizes transfers between levels in the fair value hierarchy at the end of each year. There were no such transfers during the years ended December 31, 2015 and 2014.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

NOTE 3 - FURNISHINGS, EQUIPMENT, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS:

Furnishings, equipment, technology and leasehold improvements consist of the following:

	Estimated life	2015	2014
Furnishings and equipment	7 to 10 years	$ 11,843,000	$ 11,927,000
Software developed for internal use	3 to 8 years	20,959,000	20,723,000
Leasehold improvements	Term of lease	12,391,000	12,709,000
		45,193,000	45,359,000
Less accumulated depreciation and amortization		(24,440,000)	(22,887,000)
Totals		$ 20,753,000	$ 22,472,000

In 2015 and 2014, the Association recognized a net loss of approximately $7,000 and $1,000, respectively, relating to the disposal of certain assets with original costs totaling $1,921,000 and $684,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of $20,959,000 and $20,723,000 as of December 31, 2015 and 2014, respectively. Related accumulated amortization as of December 31, 2015 and 2014 was $9,319,000 and $7,557,000, respectively.

Software development costs in progress, for various case management applications, websites and web applications, totaling $11,573,000 were placed into service in 2014 and are being amortized over a period of three to eight years. Additionally, the Association had software development costs in progress totaling $211,000 as of December 31, 2015. When placed in service these costs will be included in capital assets and amortized over a period of three to eight years.

The Association had construction-in-progress totaling approximately $6,000 as of December 31, 2015. These costs are primarily associated with leasehold improvements for new office leases which will be placed in service in 2016. When placed in service, these costs will be included in capital assets and amortized over the lives of the underlying leases. Construction-in-progress costs totaling $154,000 in 2014 were placed in service in 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS:

The Association maintains a noncontributory, qualified defined benefit pension plan covering all eligible employees. Effective December 31, 2006, the defined benefit pension plan was frozen and no additional benefits will be accrued by employees for future years of service. Accordingly, at December 31, 2015 and 2014 the projected benefit obligation and accumulated benefit obligation are equal.

The Association makes contributions to the plan based on actuarial calculations. Total employer contributions required for the fiscal year beginning January 1, 2016 are zero; therefore, the Association expects to make no contributions to the plan during 2016.

The Association also provides certain healthcare benefits for substantially all of its retirees. The Association is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Association pays the cost of the postretirement benefits as incurred.

Employees hired on or after July 1, 2003 are not eligible for retiree healthcare coverage. Prior to a plan amendment in December 2008, active employees hired on or before June 30, 2003 were eligible for retiree healthcare coverage upon retirement with at least 10 years of service after age 45. Effective December 31, 2008, eligibility for retiree medical was changed to require 15 years of service after the age of 45. However, exceptions were made for employees who would be eligible for retiree healthcare coverage as of December 31, 2008 under the previous eligibility rules of having at least 10 years of service after age 45, for employees who have at least 15 years of service as of December 31, 2008 and who were within 2 years of eligibility under the previous rules, and for a small group of senior executives. Employees who qualify under those exceptions will maintain the previous eligibility provision. The change in this benefit also limits the Association's annual net subsidy for retiree healthcare coverage to twice the 2008 net subsidy provided for all participants.

The pension plan provides a benefit equal to the sum of (a) for each year of benefit accrual service (or any fractional part thereof) credited on or before January 1, 1997, 1.75% of earnings in effect on January 1, 1997, and (b) for each year of benefit accrual service credited after January 1, 1997 and through December 31, 2006, 1.75% of earnings in effect on January 1 of such year.

Estimated future benefit payments in each of the five years subsequent to December 31, 2015 and in the aggregate for the five years beginning in 2021 are as follows:

January 1,	Pension Benefits	Healthcare Benefits
2016	$ 2,438,000	$ 365,000
2017	2,462,000	396,000
2018	2,512,000	426,000
2019	2,511,000	465,000
2020	2,547,000	490,000
Years 2021 to 2025	12,674,000	2,840,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

For the defined benefit and the healthcare benefit plan, the following tables set forth each plan's funded status and amounts recognized in the Association's financial statements at December 31, 2015 and 2014:

	Pension Benefits		Healthcare Benefits	
	2015	2014	2015	2014
Benefit obligation at December 31	$42,089,000	$ 45,432,000	$ 9,197,000	$ 9,942,000
Fair value of plan assets at December 31	34,428,000	35,299,000	–	–
Net unfunded status of the plan	$(7,661,000)	$(10,133,000)	$(9,197,000)	$(9,942,000)
Amounts recognized in the consolidated balance sheets consists of the following:				
Current liabilities	–	–	$ 365,000	$ 341,000
Noncurrent liabilities	$ 7,661,000	$ 10,133,000	8,832,000	9,601,000
Totals	$ 7,661,000	$ 10,133,000	$ 9,197,000	$ 9,942,000
Components of net periodic benefit cost and other amounts recognized in other changes in net assets				
Net periodic benefit cost:				
Service Cost	$ –	$ –	$ 205,000	$ 132,000
Interest Cost	1,682,000	1,669,000	381,000	321,000
Expected return on plan assets	(2,560,000)	(2,579,000)	–	–
Amortization of prior service cost	–	–	(432,000)	(432,000)
Amortization of net actuarial loss	1,402,000	711,000	101,000	–
Net Periodic benefit cost at December 31	$ 524,000	$ (199,000)	$ 255,000	$ 21,000
Unrecognized net loss included in net assets	$18,212,000	$18,707,000	$1,103,000	$1,733,000
Employer's contribution	2,500,000	–	371,000	356,000
Plan participants' contributions	–	–	45,000	51,000
Net periodic benefit costs	524,000	(199,000)	255,000	21,000
Benefit payments	(2,421,000)	(2,181,000)	(416,000)	(407,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Net actuarial (gain)/loss	(495,000)	7,620,000	(630,000)	3,361,000
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	4.15%	3.80%	4.25%	3.90%
Rate of compensation increase	N/A	N/A	N/A	N/A
Pre- and Post-Mortality	RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2015 for all years		RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2015 for all years	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

	Pension Benefits		Healthcare Benefits	
	2015	2014	2015	2014
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	3.80%	4.50%	3.90%	4.75%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Unrecognized actuarial (gain) or loss:				
Beginning of year	$18,707,000	$ 11,087,000	$ 1,733,000	$ (1,628,000)
Actual return on plan assets	950,000	(1,960,000)	–	–
Expected return on plan assets	2,560,000	2,579,000	–	–
Actuarial (gain) or loss	(2,603,000)	7,712,000	(961,000)	2,929,000
Amortization of net gain or (loss)	(1,402,000)	(711,000)	(101,000)	–
Amortization of prior service cost	–	–	432,000	432,000
End of year	$18,212,000	$ 18,707,000	$ 1,103,000	$ 1,733,000

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year is $1,405,000. The estimated prior service cost for the postretirement plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $115,000. The estimated net loss for the postretirement plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $25,000.

For measurement purposes, a 6.70% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015. The rate was assumed to decrease gradually to 4.50% until 2030 and remain at that level thereafter.

The target allocations of pension assets are outlined below:

	Target Allocation	Percentage of Plan Assets at December 31,	
Plan assets:		2015	2014
Equity securities	57%	60%	58%
Fixed income	43%	40%	42%
Totals		100%	100%

The overall objective of these allocations is to provide for long-term growth while maintaining an acceptable level of risk. The expected long-term rate of return on assets is 7.5%. The assumption is based on future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class. All investments are chosen with prudence and due diligence by investment managers to ensure that results over time meet the objectives of the Association's Pension Investment Objectives and Policies Statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

The fair values of the Association's pension plan assets at December 31, 2015 and 2014, by asset category, are as follows:

2015 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	$ 13,846,000	–	–	$ 13,846,000
U.S. Equities Mutual Funds	14,730,000	–	–	14,730,000
International Equities Mutual Funds	5,852,000	–	–	5,852,000
Totals	$ 34,428,000	–	–	$ 34,428,000

2014 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	$ 14,725,000	–	–	$ 14,725,000
U.S. Equities Mutual Funds	14,227,000	–	–	14,227,000
International Equities Mutual Funds	6,347,000	–	–	6,347,000
Totals	$ 35,299,000	–	–	$ 35,299,000

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2015 and 2014.

Mutual Funds are valued at the net value of shares held by the plan at year end (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active markets involving identical assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

Lease commitments:

The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2016 and 2028. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations amounted to $8,612,000 and $8,557,000 for the years ended December 31, 2015 and 2014, respectively. In addition, the Association leases certain furniture, computer equipment, and office equipment under various operating leases, all of which expire over the next one to four years.

Minimum non-cancelable lease commitments for office facilities, equipment and software, exclusive of any future escalation charges, due in each of the five years subsequent to December 31, 2015 and thereafter are as follows:

Year Ending December 31,	Amount
2016	$ 6,920,000
2017	6,142,000
2018	5,263,000
2019	5,092,000
2020	5,088,000
Thereafter	31,538,000
Total	$ 60,043,000

Due to the consolidation of certain offices and the transfer of case management of certain cases to executives in regional offices, the Association recorded expenses of $2,035,000 for 2013, which accounted for future lease payments and related costs for those leased offices, offset by expected future net sublease income. In 2014, the Association negotiated the early termination of one of the office leases included in the 2013 consolidation. The gain, or reduction in expenses, resulting from the early termination in 2014, is included in the net gain on disposal of office leases in the accompanying consolidated statements of operations and changes in net assets. The related liability amounts of $0 and $115,000 for 2015 and 2014, respectively, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets at December 31, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Contingencies:

The Association is a defendant in certain lawsuits arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against the Association cannot be predicted with certainty, the Association does not expect that those matters will have a material adverse effect on its consolidated financial position.

The Association bills and collects amounts in advance for unearned arbitrators' compensation. At December 31, 2015 and 2014, advance deposits collected totaled $59,712,000 and $58,319,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2015, pursuant to various office space leases, the Association has letter of credit agreements totaling $2,940,000. These agreements guarantee operating lease rental obligations and are secured by a portion of the investment portfolio. The agreements automatically renew until the end of the underlying lease terms which expire between 2016 and 2028. There were no payments drawn against these letters of credit by any of the beneficiaries during 2015 and 2014.