



AMERICAN ARBITRATION ASSOCIATION®

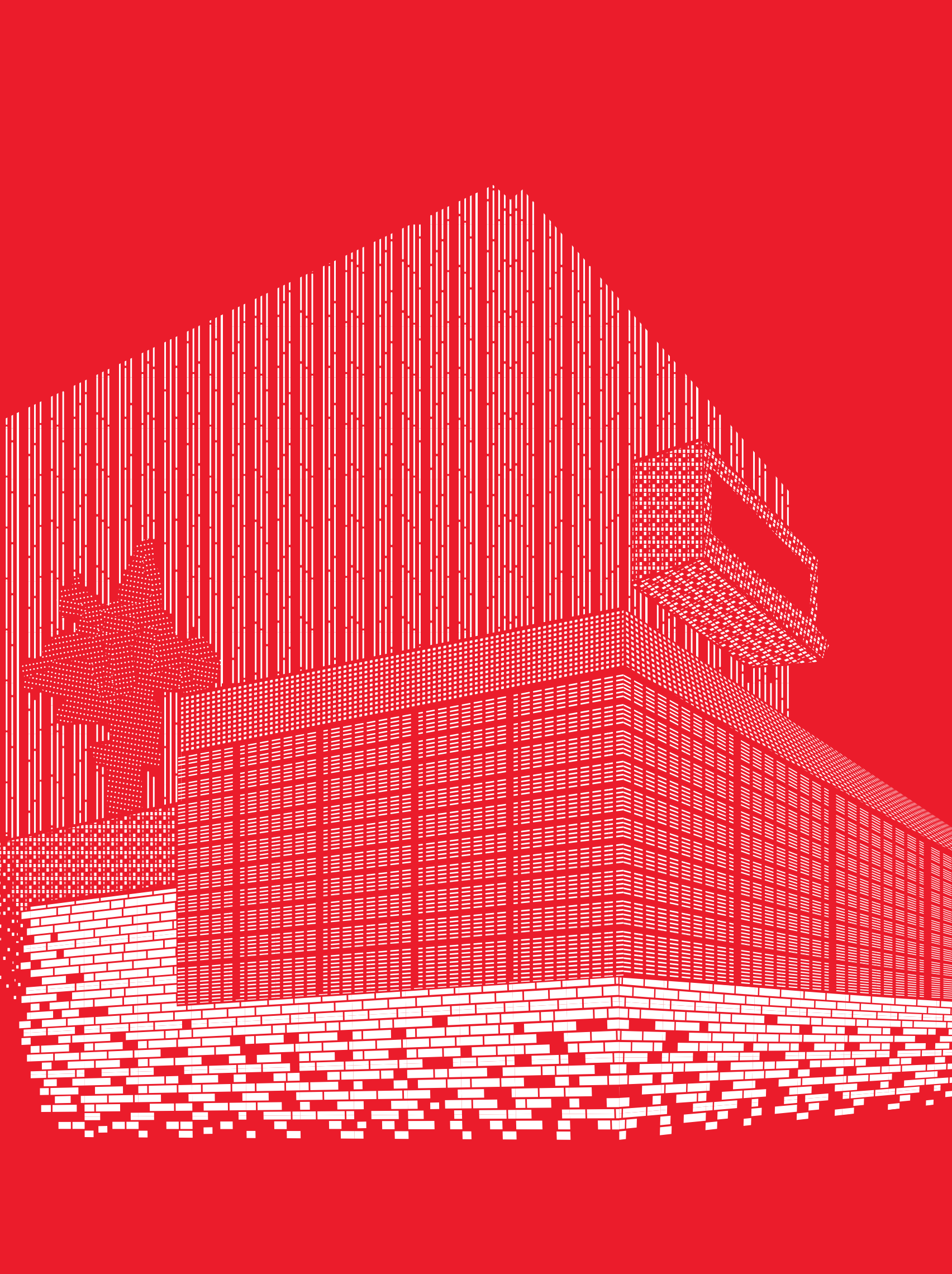
INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION® | Mediation.org®

2016 ANNUAL REPORT

& FINANCIAL
STATEMENTS

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MAY 23, 2017 | NEW YORK, NY



2016 ANNUAL REPORT & FINANCIAL STATEMENTS



AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION® | Mediation.org

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.

PRESIDENT'S LETTER 2016

IT'S GRATIFYING WHEN A PLAN COMES TOGETHER.

In last year's President's Letter, I referenced a number of ambitious undertakings and initiatives that would continue to unfold during 2016, the American Arbitration Association's landmark 90th Anniversary. I am happy to report that, by almost every measure, the AAA had a successful year marked by many noteworthy accomplishments.

WE ALSO SERVED MANY MORE ORGANIZATIONS AND INDIVIDUALS THROUGH OUR EXCEPTIONAL ELECTIONS WORK, WHICH INCLUDED ISSUING A STAGGERING 1.5 MILLION BALLOTS TO UNION MEMBERS VOTING IN ELECTIONS ACROSS 17 STATES.

For one thing, increased case activity meant that we provided vital service to more organizations and more individuals looking to avail themselves of the advantages offered by arbitration, mediation, and other ADR methodologies. We also served many more organizations and individuals through our exceptional elections work, which included issuing a staggering 1.5 million ballots to union members voting in elections across 17 states, and online educational programs with more than 3,100 total registrations. If numbers alone are the measure of success, clearly the AAA attained new heights in

2016. But numbers don't tell the whole story. In the following pages my colleagues from our five Divisions – Commercial, Construction/Real Estate/Environmental, Labor/Employment/Elections, International (ICDR), and State Insurance – as well as several of our corporate departments, will provide you with a more complete picture of many of the services, programs and activities that contributed to a memorable year.

You may recall that in 2015 we established the "Governance 2026 Committee" to review the Association's governance structure, a task that hadn't been

undertaken for decades. The purpose was to determine how best to structure the AAA's governance so as to ensure its future success and strong leadership. The result of the extensive discussions and review was made manifest last May at the Annual Meeting of the Board of Directors, where the Board approved Amended and Restated AAA Bylaws that restructured AAA governance and created a Council of committees with ADR and other expertise that would focus on specific subject matters of interest, and also created a smaller Board of Directors for direct governance of the Association. Council Committee activities commenced almost immediately and are ongoing. The Governance 2026 Committee was led by John Townsend, former Chair of the Board of Directors, and current Board member Melinda Reid Hatton. The other members of the Governance 2026 Committee were James H. Carter, John D. Feerick, James T. Giles,

Joseph D. Garrison, Peter B. Hamilton, Deborah G. Hankinson, James R. Jenkins, India Johnson, John J. Kerr Jr., Harold H. Koh, and Teresa E. McCaslin. I extend my thanks to all of them for their generous contribution of time and energy to the governance of the AAA, efforts that will benefit the Association for generations to come.

Also in May, we partnered with the NYU School of Law to present a conference on access to justice and arbitration, including the class action intersection with arbitration law and practice, that was attended by more than 150 arbitrators, attorneys and academics. Expert panelists discussed such topics as third-party funding, ensuring fairness for pro se parties, claims resolution through the United Nations Compensation Commission, class action litigation and arbitration, and access to justice after the arbitral award is entered.

“Our goal is unchanged...creating and delivering good or best ways for people and organizations to prevent or fairly resolve disputes and get back to being productive individuals, companies, unions, governments, non-profits—whatever they are or whatever they eventually want to be.”

India Johnson, President & Chief Executive Officer

IN KEEPING WITH OUR EFFORTS TO SUPPORT THE GROWTH AND IMPROVEMENT OF ALTERNATIVE DISPUTE RESOLUTION AT ALL LEVELS, WE DONATED \$25,000 TO THE NYU LAW SCHOOL'S CENTER ON CIVIL JUSTICE AND ALSO CONTRIBUTED \$5,000 TO A NEW SCHOLARSHIP FUND IN HONOR OF THE LATE JUDITH KAYE, NEW YORK'S FORMER CHIEF JUDGE OF THE COURT OF APPEALS.



We were introspective in 2016. To gain further insight into how we are perceived among domestic current and prospective users of arbitration in commercial and construction disputes, we commissioned a study that covered areas such as brand awareness, preferred arbitration provider, attitudes toward ADR, and satisfaction with the AAA. The results indicated that while both the AAA and commercial arbitration itself have challenges to address in the coming years, including factors that negatively impact the speed and cost of arbitration and the need to refresh the panels on our Roster, we were gratified to learn that the AAA is widely respected for its Rules, subject matter expertise of its arbitrators, and—notably—its reputation and reliability. On average, 98% of survey respondents named the AAA in at least some of their contracts, making the Association the most widely utilized arbitral provider by far for users in the United States.

Late in 2016, we also commissioned a study—“Efficiency and Economic Benefits of Dispute Resolution through Arbitration Compared with U.S. District Court Proceedings”—by economists at Micronomics who have expertise in the impact of court delays on local economies. The study compared the length of time it takes to litigate disputes in U.S. District Court proceedings with the length of time it takes to arbitrate disputes using the AAA. The results were not really all that surprising: On average, U.S. District Court cases took more than 12 months longer to get to trial than cases using arbitration. In states that had the highest caseload with respect to both AAA arbitration and U.S. District Court proceedings, cases using litigation took 16 months longer on average to get to trial than cases that were being arbitrated. The study also concluded that the greater the amount at issue, the greater the economic loss associated with delay in resolving disputes. Clearly there is good reason to select arbitration rather than languish in the court system. Copies of this important study can be obtained at <http://go.adr.org/impactsofdelay>.

“On average, U.S. District Court cases took more than 12 months longer to get to trial than cases using arbitration.”

I think it appropriate that I wrap up this installment of my President’s Letter comments with an additional mention of the AAA’s 90th Anniversary. We commemorated it throughout the year with activities, trivia contests, and community service by many of our staff. The selection of photos that appear on this page are a reflection of how much the AAA enjoyed its 90th Anniversary. Yet, there is much more to do to make the promise of arbitration a reality for still more individuals and more organizations. Our goal is unchanged...creating and delivering good or best ways for people and organizations to prevent or fairly resolve disputes and get back to being productive individuals, companies, unions, governments, non-profits—whatever they are or whatever they eventually want to be. Now, onward to the AAA’s Centennial and even greater success!

India Johnson

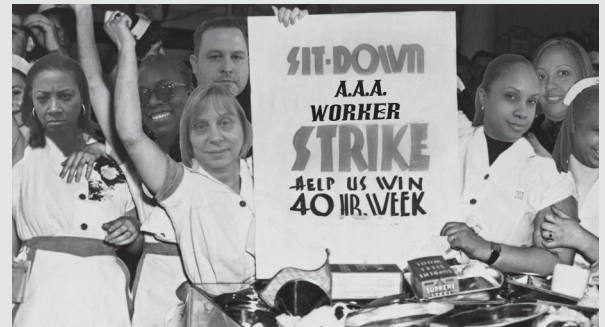
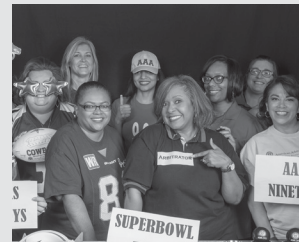
India Johnson
President & Chief Executive Officer

CELEBRATING

90

YEARS
— of —

RESOLUTION
1926 - 2016



AAA EMPLOYEES CELEBRATE 90TH ANNIVERSARY WITH PHOTO CONTEST.



AMERICAN ARBITRATION ASSOCIATION® | INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION®

FOUNDATION®



PICTURED: GRANT RECIPIENT MEDIATORS BEYOND BORDERS INTERNATIONAL

The American Arbitration Association announced the establishment of the AAA-ICDR Foundation in May 2015.

**THE
FOUNDATION
IS A**

501(C)(3)
**NOT-FOR-PROFIT
ORGANIZATION...**

Since that time, the Foundation Board: James R. Jenkins, India Johnson, John J. Kerr, Jr., Carolyn Lamm, Francis McGovern, Bruce Meyerson, and Board Chair Edna Sussman, along with various AAA-ICDR staff, have been hard at work in both the areas of grant making and fundraising.

The Foundation is a 501(c)(3) not-for-profit organization and is able to solicit donations and provide grants to fund a range of worthy causes that promote the Foundation's wide-reaching mission, which is to support the use and improvement of dispute resolution processes in the USA and internationally, including:

- fostering measures that reduce potential escalation, manage, and resolve conflicts;
- expanding the use of dispute resolution processes tailored to the conflict;
- supporting research, education and initiatives promoting high quality, efficient and fair dispute resolution;
- increasing access to justice in and through alternative dispute resolution;
- encouraging collaborative processes to resolve public conflicts;
- sharing expertise across diverse groups and cultures;
- partnering with others dedicated to advancing the Foundation's mission.

To help raise funds for the Foundation, the AAA-ICDR offered the option for AAA-ICDR panelists to contribute fifty percent of their 2017 Panel Fee to the Foundation. The panel fee donations combined with the generous donations made by the Foundation's other donors raised \$581,789 for the Foundation in 2016.

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. In May 2016, the Foundation, led by its Grants Committee, after a careful review of all of the submissions and the presentation of full grant proposals, approved the following grants:

- Straus Institute Annual Global Summit on Conflict Management, September 2016, which brought together individuals and organizations from all over the world to discuss common issues and concerns associated with complex dispute resolution processes.
- Prison of Peace 2016 Valley State Prison Mediation Training Program, which is an innovative program that trains inmates in mediation skills.
- Minnesota State Office for Collaboration and Dispute Resolution and Dispute Resolution Institute at Mitchell Hamline School of Law community engagement program to address complex, systemic issues through dialogue and build the community's capacity to engage in constructive problem solving on such issues preventively and as they emerge.
- Mediators Beyond Borders International to enable women community leaders from Cambodia, Indonesia, Nepal, the Philippines, Singapore, and Thailand to complete advanced mediation and community leadership training in Djakarta, Indonesia.

- Consensus Building Institute in using ADR in connection with the implementation of California's Sustainable Groundwater Management Act.
- American Bar Association Young Lawyers Division with the Annual Law Student Arbitration Competition.

In May 2016, the Foundation announced its second funding cycle. In response, the Foundation received 91 Initial Descriptions of Grant Requests and will be deciding on those grants in 2017.

More information about how to contribute to the AAA-ICDR Foundation and the Grants it has funded can be found on the Foundation's website: www.aaaicdrfoundation.org.

The Foundation is not involved in any way in the oversight, administration, or decision making of AAA-ICDR cases or in the maintenance of the AAA-ICDR's various rosters of arbitrators and mediators.

THE GOVERNANCE 2026 COMMITTEE



As was reported last year, the Governance 2026 Committee was established to complete a detailed review of the AAA's governance structure.

The Committee's work culminated in a detailed and thorough report which made a number of recommendations that were approved by the AAA's Board of Directors at the 2016 Annual Meeting.

Specifically, the AAA's Bylaws and Articles of Incorporation were amended to change what had been an approximately 100-person Board of Directors to a Council of AAA members of approximately the same size. The responsibilities of the new Council members were also modified to eliminate the full range of fiduciary and other duties that attach to a corporation's Directors to more accurately reflect the important advisory role that they play. The structure of the Council was clarified through the creation of a number of

subject matter-specific committees, such as a Mediation Committee, Arbitrator Committee, Large Complex Case Committee, and the International Advisory Committee. The establishment of this structure will allow the AAA and ICDR to most effectively incorporate the expertise of its Council members with the shared interests and initiatives of the AAA and ICDR.

Other changes included the modification of term limits to the possibility of three successive terms of three years, and additional modifications that were consistent with AAA practice and law applicable to not-for-profit corporations, such as the requirement of independent directors on specified committees.

The changes resulting from the Governance 2026 Committee were important and made with significant consideration to the AAA's mission and status as a not-for-profit organization devoted to dispute resolution.



DIVISIONS

COMMERCIAL DIVISION

CONSTRUCTION, REAL ESTATE AND ENVIRONMENTAL DIVISION

LABOR, EMPLOYMENT AND ELECTIONS DIVISION

INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION (ICDR)

STATE INSURANCE DIVISION

COMMERCIAL DIVISION



IN AN EFFORT TO RECEIVE CANDID AND WIDE-RANGING FEEDBACK DIRECTLY FROM USERS REGARDING HOW THE AAA CAN IMPROVE THE ARBITRATION AND MEDIATION PROCESSES, IN 2016 THE COMMERCIAL DIVISION CONDUCTED 15 ROUNDTABLES ATTENDED BY MORE THAN 150 ATTORNEYS AND PRACTITIONERS NATIONWIDE TO DISCUSS THE HANDLING OF LARGE, COMPLEX DISPUTES.

ROUNDTABLE ATTENDEES DISCUSSED A WIDE VARIETY OF TOPICS, SUCH AS ARBITRATOR FEES,

contract clauses, mandatory mediation, appellate review, and ad hoc versus administered arbitrations. A summary of themes and findings from a roundtable conducted in New York was published in the *New York Dispute Resolution Lawyer* in October 2016.

The Commercial Division formed two new panels in 2016: eDiscovery Special Masters and Mergers & Acquisitions/Joint Ventures. Panelists from across the nation were asked to provide specific information about their expertise and experience in these two specialized areas. After a comprehensive review process, panels of 40 eDiscovery Special Masters and 250 Mergers & Acquisitions/Joint Ventures arbitrators and mediators were constituted with promotion of these new panels to begin in 2017.

While the AAA offers high-value case management services, some contracts provide for ad hoc or self-administered arbitration. The AAA now makes it



Healthcare Payor Provider ClauseBuilder was launched during the first quarter of 2016. It provides users with the ability to customize their payor provider contracts naming the AAA Healthcare Payor Provider Arbitration Rules.

possible for parties in such cases to utilize various stand-alone AAA high-quality administrative services that are suited to their specific circumstances. For example, List Only or List and Appointment Services provide an option for parties to receive a list of arbitrators whose credentials are the most appropriate for their dispute without additional administration by the AAA. Also, the Arbitrator Challenge Review Procedures for Non-Administered Arbitrations provides parties to non-administered arbitrations with a forum—review by the AAA’s Administrative Review Council—for submitting objections or challenges to an arbitrator’s continued service on a case.

The AAA Judicial Committee held a meeting with AAA Judicial Panel members in February 2016 in New Orleans to discuss new marketing initiatives focused exclusively on former judges. AAA Judicial Panel print ads ran in several legal publications, and an online landing page on the AAA’s website was developed to promote the panel (<http://info.adr.org/judicialpanel>). In addition, a mediation training program for judges was developed.

Of the new Commercial panelists added in 2016, 45% are diverse. In October, the Division held a diversity

roundtable in New York with arbitration practitioners and panelists to discuss the AAA’s commitment to diversity and how to further these efforts. The Division also partnered with various bar associations to co-sponsor diversity events such as the National Asian Pacific American Bar Association Convention held in San Diego, attended by more than 1,900 corporate counsel, large-firm lawyers, solo practitioners, judges, non-profit counsel, and lawyers from governmental agencies.

Healthcare Payor Provider ClauseBuilder was launched during the first quarter of 2016. It provides users with the ability to customize their payor provider contracts naming the AAA Healthcare Payor Provider Arbitration Rules. Also, healthcare industry arbitrator resumes are now available for AAA healthcare cases. The new resume provides panelists with the ability to highlight and focus a resume specific to their healthcare ADR expertise. The AAA hosted the 4th Biennial Healthcare Dispute Resolution Innovation & Strategy Conference in Scottsdale, AZ, on November 4, 2016. The program included discussions on contract drafting, healthcare ADR trends, innovative conflict resolution in hospitals, and health networks.

CONSTRUCTION DIVISION

IN 2016, THE CONSTRUCTION DIVISION CONTINUED ITS FOCUS ON ITS VALUE INITIATIVES FOR LARGE, COMPLEX CASES (LCC).

In an effort to acquire candid feedback from the industry, the Division vice presidents conducted 12 LCC Roundtables across the country with over 100 attendees made up of both outside and in-house counsel as well as other industry professionals who utilize AAA services.

The topics discussed included the composition of the roster, recruitment, managing time and cost in arbitration, mandatory mediation, concerns pertaining to non-administered arbitration, and promoting on-site dispute resolution. The information gathered at the Roundtables will be analyzed and used in the AAA's ongoing efforts to provide high-quality service consistent with industry needs. Additionally, in order to insure that these

cases continue to have VP management and oversight and to provide broader outreach, three additional Directors of ADR Services have been added to the AAA's staff in three additional cities.

Following up on surveys of arbitrators and advocates last year, the National Construction Dispute Resolution Committee (NCDRC) associations—with the renewed participation of engineering, real estate transactional and fidelity/



AMERICAN ARBITRATION ASSOCIATION®

**THE 2016 AAA®
CONSTRUCTION CONFERENCE**

AHEAD OF SCHEDULE
& UNDER BUDGET

surety groups—conducted a survey of their respective industry members that focused on user preferences and dispute resolution needs. Responses were received from more than 1,000 participants from nine NCDRC member associations. Further analysis and comparison to the prior surveys will be completed in 2017.

The AAA continued to expand its participation at key construction industry events such as ABA Forum on Construction Law meetings and webinars, the Women in Construction Conference, the Construction SuperConference, programs by the American College of Construction Lawyers, National Society of Professional Engineers, and other regional events where AAA Construction Division vice presidents moderated and delivered educational presentations and provided ADR materials and information.

The Construction Division hosted its annual construction conference—subtitled “Ahead of Schedule and Under Budget”—on April 1, 2016, in Miami, FL. The Conference included 13 firm/company sponsors and 13 corporate associations and was attended by construction lawyers, in-house counsel, and industry professionals. Program topics included, “The Right Tool for the Job—Customizing the Proper ADR Process for Your Project,” “Who’s the Boss? What is the Authority of the Arbitrator?,” “Don’t Get Burned – Effectively ‘Hot-Tubbing’ Experts,” “Taylor Swift or The Rolling Stones? The Changing ADR Landscape,” and “What Every Advocate Can Learn from Walking in the Shoes of an Arbitrator.”



The Construction
Division hosted its
annual construction
conference—subtitled
“Ahead of Schedule and
Under Budget”
—on April 1, 2016,
in Miami, FL.

LABOR, EMPLOYMENT AND ELECTIONS DIVISION

THERE WAS A CONTINUATION OF THE UPWARD TREND IN EMPLOYMENT CASE FILINGS DURING 2016, WITH INDIVIDUALLY negotiated contract cases leading the way. Filing fees generated from employment cases increased by 38.3% over the prior year. Large group filings continued with cases involving 29 different companies.

The Division continued to develop and implement innovative case-processing techniques to leverage existing staff resources to the greatest extent possible for its unique caseloads. Among these were the Copyright Alert System appeals, in which 932 cases were administered in 2016 through a completely system-driven automated process, and the Asbestos Personal Injury Trust Mediations, for which the AAA serves as private adjudication ADR administrator for more than 4,000 active mass claim mediation cases.

Labor case filings in 2016 decreased by 7% from 2015 figures, a possible reflection of the continued contraction of the union environment in the U.S. The Division's commitment to the educational component of the AAA's mission is evidenced by the wide array of programs that were offered in 2016, including 14 well-attended, in-person trainings held nationwide from Connecticut to Hawaii.

In 2016, the Elections Department issued almost 1,500,000 ballots to union members voting in elections that were held in 17 states.

The Division administered two very large, high-profile elections:

**ONE FOR THE LARGEST
TEACHER'S UNION IN
THE NATION**

**187,429
BALLOTS.**

**THE OTHER FOR ONE
OF THE COUNTRY'S
LARGEST PUBLIC
SECTOR UNIONS**

**177,897
BALLOTS.**



IN 2016, THE INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION (ICDR) TOOK A NUMBER OF STEPS TOWARD CONTINUED IMPROVEMENTS IN THE DISPUTE RESOLUTION SERVICES IT PROVIDES AND PARTICIPATED IN NUMEROUS PROGRAMS AND INITIATIVES RELATED TO INTERNATIONAL ADR.

Internally, the ICDR restructured and reorganized its Case Counsel, Directors and other employees so that the cases they administer are aligned by dispute type. The result was that ICDR staff gained greater expertise and familiarity with specific caseloads they will be involved with on a regular and ongoing basis. The ICDR also began administering arbitrations and mediations out of its Singapore office, heralding an important development in the ICDR's presence in Asia.

The creation of specific panels of arbitrators in areas where there was an identified need continued as well, such as with the Aerospace, Aviation and National Security Panel, and the ICDR continued to show recognized leadership in the field by organizing and participating in numerous programs in areas that included technology and energy among many others. Representatives of the ICDR were also present, literally around the world, to participate in programs and other initiatives regarding international arbitration.

The ICDR's important commitment to training and education in international arbitration and mediation continued in 2016, as did its commitment to diversity initiatives, as reflected by the diversity maintained on many of its advisory committees and subcommittees.

STATE INSURANCE CASELOADS

NEW YORK STATE INSURANCE

The No-Fault Arbitration program experienced another year of solid growth in 2016 driven by an 18% increase in new case filings.

THERE WERE
248,117
NEW CASES FILED,

SURPASSING
THE PREVIOUS RECORD OF
209,913
SET IN 2015,



an overall increase of 31% over the last two years. Ten new arbitrators were added to the panel last year. Conciliation remained a highly effective opportunity for parties to resolve their no-fault arbitration disputes. In 2016, 45% of cases were resolved during the conciliation period.

There were 2,379 Supplemental Underinsured/Uninsured Motorist (SUM) case filings in 2016, an increase of 82 over the prior year.

MINNESOTA STATE INSURANCE

After a competitive bid process in 2016, the State of Minnesota again selected the AAA to administer the Minnesota No-Fault Arbitration Caseload. Pursuant to the contract, the AAA will serve as administrator for an additional four years. In March, an amended set of Minnesota No-Fault Rules went into effect.

MEDIATION

IN 2016, THE AAA EXPANDED ITS MEDIATION EFFORTS TO REFINE AND PROMOTE ITS SERVICES AND PRODUCT OFFERINGS.

There was particular focus on promoting utilization of the automatic “mediation step” now embedded in the AAA’s Commercial and Construction Rules and training AAA staff on effective presentation of the step to parties with pending arbitration case filings.

There were 10 sessions of Mediation.org’s 40-hour Essential Mediation Skills for the New Mediator training program presented in key cities across the country.

Mediation.org also promoted its national Master Mediator Program, featuring eight regional panels of elite, counsel-vetted and qualified mediators capable of tackling the largest and most complex mediation cases. In 2016, Mediation.org launched a series of CLE-based seminars and other mechanisms to introduce mediation panelists to major law firms and corporate law departments.

There were 10 sessions of Mediation.org’s 40-hour Essential Mediation Skills for the New Mediator training program presented in key cities across the country and Mediation.org collaborated with AAA Publications on a mediation-focused edition of the *Dispute Resolution Journal*. Diversity outreach continued and the 2016 class of Higginbotham Fellows was trained in essential mediation/ arbitration skills. In-house AAA staff training on Mediation.org’s mission and current initiatives was conducted at regional case management centers to equip staff with the skills to better assist parties interested in utilizing the AAA’s mediation services.



AAA PUBLICATIONS / EDUCATION SERVICES / PANEL RELATIONS

SIX NEW EDITIONS OF THE AAA HANDBOOK SERIES WERE PUBLISHED IN 2016, WITH TWO ADDITIONAL VOLUMES TO FOLLOW IN EARLY 2017. THE ANNUAL AAA YEARBOOK ON ARBITRATION & THE LAW, NOW IN ITS 28TH EDITION, ALSO WAS PUBLISHED IN PARTNERSHIP WITH THE UNIVERSITY OF HOUSTON LAW CENTER AND JURIS PUBLISHERS.

AAA EDUCATION SERVICES PRESENTED 35 ONLINE EDUCATIONAL WEBINARS IN 2016, OF WHICH FOUR WERE OFFERED FREE OF CHARGE.

Total registrations numbered 3,155. More than 100 pre-recorded webinars were made available through the AAA's website and Thomson Reuters began offering many of these recorded programs to its worldwide audience via its Westlaw online platform.

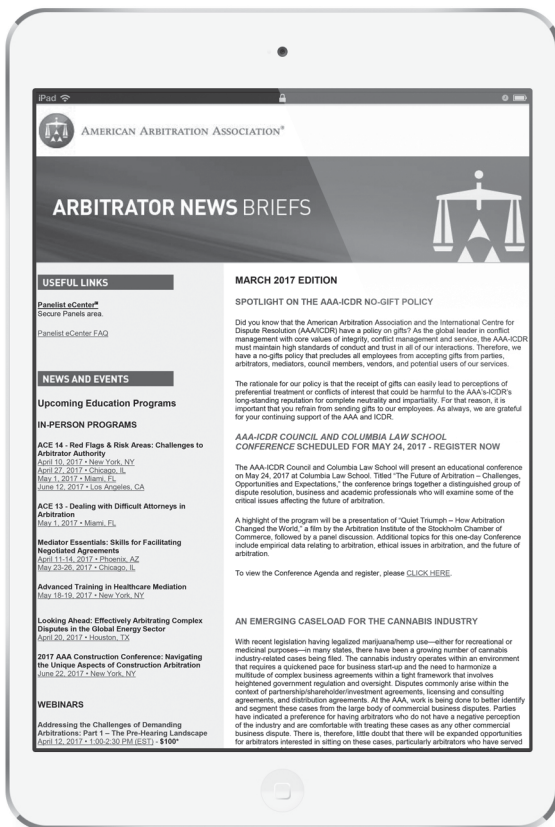
There were 20 classroom Arbitrator Continuing Education (ACE) programs conducted in locations around the country and 12 CORE programs for arbitrators new to the Panel. Education Services also collaborated on the presentation of 10 sessions of Mediation.org's 40-hour Essential Mediation Skills for the New Mediator training program.

In 2016, the AAA rolled out "Dealing with Difficult Attorneys," the 13th topic in the AAA's continuing series of ACE programs. A 60-minute online version of the course was also made available to AAA arbitrators. In October, the AAA conducted a four-day foundational arbitrator training course for 14 arbitrators serving under the auspices of the Ismaili Conciliation and Arbitration Board, an intra-community-based arbitration body belonging to the Shia branch of Islam and constituted to arbitrate disputes among its members.

The arbitrators trained in October will hear cases in North America.

The AAA-ICDR/Mediation.org Panel Conference was held February 19-20 in New Orleans and was attended by 347 arbitrators and mediators. The Conference offered 15 different sessions that covered a variety of ADR topics.

There were 232 arbitrators added to the Panel in 2016, of which 41% were diverse. New forms and templates contributed to improvements in the panel application process. New segments of the Panel included Aerospace, Aviation and National Security.



New editions of the “Arbitrator News Briefs” online newsletter were sent to the panel of arbitrators to provide updates on developments in the field of ADR as well as important AAA initiatives.

THERE WERE
232
 ARBITRATORS
 ADDED TO THE PANEL IN 2016,
41%
 WERE DIVERSE.



DIVERSITY

...94
**NEW MINORITY
AND WOMEN
ARBITRATORS AND
MEDIATORS ADDED
TO PANELS IN
2016.**

DIVERSITY AND INCLUSION IN THE ALTERNATIVE DISPUTE RESOLUTION FIELD IS A PRIORITY FOR THE AMERICAN ARBITRATION ASSOCIATION.

This ongoing commitment is reflected in the AAA's mission which recognizes the importance and contribution of a diverse work force, Board of Directors, and Panel of Arbitrators and Mediators, and whereby the AAA commits to respect and increase diversity in all of its endeavors.

In 2016, the AAA continued to focus on the recruitment of diverse arbitrators and mediators to its Panels. The AAA surpassed its goal of adding 75 new diverse arbitrators and mediators, with a total of 94 new minority and women arbitrators and mediators added to its Panels in 2016. The AAA also continued its partnership and outreach to several national and minority bar associations to identify and recruit diverse panelists. One such program was conducted at the Aspiring Arbitrators Academy during which members of a minority bar association received arbitration training and individual counseling about opportunities to become an arbitrator.

The AAA has also seen increased success with its case management programming that is designed to provide parties with arbitrator lists that are at minimum 20% diverse. This programming is a way to

ensure that the AAA is listing diverse panelists where they meet the parties' requirements and alternatively allowing the AAA to identify potential caseloads and regions where recruitment is needed. For arbitrator and mediator lists finalized in 2016, overall 84% of lists finalized and sent to parties within this time period were at least 20% diverse.

2016 also marked the eighth year of the AAA Higginbotham Fellows Program. The Fellows Program was hosted in New York City at the AAA's midtown office to coincide with the AAA's Annual Meeting. During this weeklong training, Fellows received in-depth arbitration and mediation training taught by leading arbitrators, mediators and ADR advocates. To date, 29 Fellows have advanced to the AAA's Panel with many of them having the opportunity to be listed and selected for arbitration and mediation cases.



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AMERICAN ARBITRATION ASSOCIATION®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016 AND 2015

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

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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, 2016 and 2015, 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, 2016 and 2015, 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
May 5, 2017

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 12,814,000	\$ 6,929,000
INVESTMENTS - At Fair Value	120,858,000	104,660,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of \$621,000 in 2016 and \$651,000 in 2015	19,490,000	16,223,000
OTHER RECEIVABLES, Less allowances for uncollectible accounts of \$52,000 in 2016 and \$70,000 in 2015	561,000	189,000
PREPAID EXPENSES	2,873,000	2,756,000
INTERNAL USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	396,000	217,000
FURNISHINGS, EQUIPMENT, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS - Net	19,931,000	20,753,000
TOTAL ASSETS	<u>\$ 176,923,000</u>	<u>\$ 151,727,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 77,198,000	\$ 68,050,000
Accrued postretirement medical costs	9,573,000	9,197,000
Accrued pension liability	7,464,000	7,661,000
Deferred rent	4,512,000	4,356,000
Deferred revenue	8,000,000	6,245,000
Total Liabilities	106,747,000	95,509,000
Commitments and contingencies	-	-
UNRESTRICTED NET ASSETS		
Undesignated net assets	9,375,000	56,218,000
Board designated net assets	60,801,000	-
Total Unrestricted Net Assets	70,176,000	56,218,000
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 176,923,000</u>	<u>\$ 151,727,000</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$ 53,057,000	\$ 45,317,000
State insurance	23,750,000	20,757,000
Labor	4,753,000	5,043,000
Elections	5,544,000	2,760,000
Totals	87,104,000	73,877,000
Publications and education	2,535,000	1,646,000
Other operating income	1,053,000	829,000
Totals	90,692,000	76,352,000
OPERATING EXPENSES		
Administration of tribunals	70,858,000	62,181,000
Elections	4,941,000	2,830,000
Publications and education	1,627,000	1,258,000
General and administration	4,623,000	3,933,000
Totals	82,049,000	70,202,000
Net Operating Income	8,643,000	6,150,000
NON OPERATING INCOME AND EXPENSES		
Interest and dividends on investments - net of fees	1,672,000	2,232,000
Net realized and unrealized gains/(losses) on investments	3,174,000	(4,258,000)
Loss on disposal of assets	(1,000)	(7,000)
CHANGE IN UNRESTRICTED NET ASSETS BEFORE CHANGES IN NET ASSETS	13,488,000	4,117,000
Pension liability adjustment	806,000	495,000
Postretirement medical obligation adjustment	(336,000)	630,000
CHANGE IN UNRESTRICTED NET ASSETS	13,958,000	5,242,000
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	56,218,000	50,976,000
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 70,176,000	\$ 56,218,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,958,000	\$ 5,242,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,617,000	3,466,000
Bad debt and change in provisions for uncollectible accounts	407,000	473,000
Deferred rent	156,000	197,000
Net realized and unrealized (gains)/losses on investments	(3,174,000)	4,258,000
Loss on disposal of assets	1,000	8,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(3,674,000)	(3,409,000)
(Increase)/Decrease in other receivables	(372,000)	57,000
(Increase)/Decrease in prepaid expenses	(117,000)	161,000
Increase in accounts payable and accrued expenses	9,148,000	3,076,000
Increase/(Decrease) in accrued postretirement medical costs	376,000	(745,000)
Decrease in accrued pension liability	(197,000)	(2,472,000)
Increase in deferred revenue	1,755,000	2,440,000
Net cash provided by operating activities	<u>21,884,000</u>	<u>12,752,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(2,579,000)	(1,602,000)
Proceeds from sale of furnishings, equipment, technology and leasehold improvements	-	1,000
Proceeds from sale of investments	46,179,000	45,857,000
Purchase of investments	(59,203,000)	(56,808,000)
Internal use software development and construction in progress	(396,000)	(217,000)
Net cash used in investing activities	<u>(15,999,000)</u>	<u>(12,769,000)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,885,000	(17,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,929,000	6,946,000
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,814,000</u>	<u>\$ 6,929,000</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 and deferred revenue:

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 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 2016 and 2015 of \$226,000 and \$163,000, 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 \$5,816,000 and \$4,253,000 as of December 31, 2016 and 2015, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

Registration fees and other payments for educational programs and services may be payable in advance prior to an education program event or delivery of services. Deferred education revenue of \$236,000 and \$415,000 as of December 31, 2016 and 2015, respectively, is 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 \$1,042,000 and \$812,000 as of December 31, 2016 and 2015, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 \$680,000 and \$602,000 as of December 31, 2016 and 2015, 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 \$22,797,000 and \$16,381,000 as of December 31, 2016 and 2015, 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 and 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, 2016 AND 2015

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, 2016 and 2015. The Association's Federal and state income tax returns prior to fiscal year 2013 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.

Classification of net assets:

Categories of net assets are classified as unrestricted, temporarily restricted and permanently restricted depending upon donor restriction. In October 2016, the Board designated \$60,801,000 as an operating reserve fund. Board designated net assets are unrestricted net assets which the board has set aside to mitigate risks that may impact the Association's financial sustainability and to serve as a long term capital fund. There were no expenditures from the operating reserve fund in 2016. The Association has no temporarily restricted or permanently restricted net assets as of December 31, 2016 and 2015.

Subsequent events:

The Association has evaluated subsequent events through May 5, 2017, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

NOTE 2 - INVESTMENTS:

Investments at December 31, 2016 and 2015 consist of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	\$ 48,551,000	\$ 47,834,000	\$ 25,687,000	\$ 24,566,000
Intermediate Term Bond funds	20,205,000	19,579,000	10,351,000	10,015,000
Inflation-Protected Bond funds	2,740,000	2,811,000	2,314,000	2,443,000
High Yield Bond funds	5,900,000	5,755,000	7,854,000	7,249,000
Emerging Markets Bond funds	5,882,000	5,772,000	4,137,000	3,931,000
International Equities funds	6,121,000	6,818,000	5,876,000	4,931,000
U.S. Equities funds	25,377,000	28,125,000	34,362,000	36,990,000
Emerging Markets Equities funds	1,464,000	1,525,000	8,794,000	8,414,000
Real Estate Investment Trust funds	1,458,000	1,377,000	3,891,000	4,727,000
Cash/Money Market funds	1,262,000	1,262,000	1,394,000	1,394,000
Totals	<u>\$ 118,960,000</u>	<u>\$ 120,858,000</u>	<u>\$ 104,660,000</u>	<u>\$ 104,660,000</u>

Interest and dividends on investments are reported net of investment management fees and bank charges of \$1,352,000 and \$1,219,000 in 2016 and 2015, 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, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Financial assets carried at fair value at December 31, 2016 and 2015 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2016 and 2015, 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, 2016 and 2015.

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, 2016 AND 2015

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

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

	Estimated Life	2016	2015
Furnishings and equipment	7 to 10 years	\$ 13,498,000	\$ 11,843,000
Software developed for internal use	3 to 10 years	16,466,000	20,959,000
Leasehold improvements	Term of lease	12,924,000	12,391,000
		42,888,000	45,193,000
Less accumulated depreciation and amortization		(22,957,000)	(24,440,000)
Totals		\$ 19,931,000	\$ 20,753,000

In 2016 and 2015, the Association recognized a net loss of approximately \$1,000 and \$7,000 relating to the disposal of certain assets with original costs totaling \$5,101,000 and \$1,921,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$16,466,000 and \$20,959,000 as of December 31, 2016 and 2015, respectively. Related accumulated amortization as of December 31, 2016 and 2015 was \$6,281,000 and \$9,319,000, respectively.

Software development costs in progress, for various case management applications, websites and web applications, totaling \$211,000 were placed into service in 2016 and are being amortized over a period of three to seven years. Additionally, the Association had software development costs in progress totaling \$92,000 as of December 31, 2016.

The Association had construction in progress totaling approximately \$304,000 as of December 31, 2016. These costs are primarily associated with leasehold improvements for new office leases which will be placed in service in 2017. 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 \$6,000 in 2015 were placed in service in 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 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, 2017 are zero; therefore, the Association expects to make no contributions to the plan during 2017.

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, 2016 and in the aggregate for the five years beginning in 2022 are as follows:

<u>January 1,</u>	<u>Pension Benefits</u>	<u>Healthcare Benefits</u>
2017	\$ 2,688,000	\$ 412,000
2018	2,818,000	447,000
2019	2,583,000	485,000
2020	2,724,000	518,000
2021	2,539,000	551,000
Years 2022 to 2026	12,577,000	2,938,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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, 2016 and 2015:

	Pension Benefits		Healthcare Benefits	
	2016	2015	2016	2015
Benefit obligation at December 31	\$41,515,000	\$42,089,000	\$ 9,573,000	\$ 9,197,000
Fair value of plan assets at December 31	34,051,000	34,428,000	-	-
Net unfunded status of the plan	<u>\$ (7,464,000)</u>	<u>\$ (7,661,000)</u>	<u>\$ (9,573,000)</u>	<u>\$ (9,197,000)</u>
Amounts recognized in the consolidated balance sheets consists of the following:				
Current liabilities	-	-	\$ 412,000	\$ 365,000
Noncurrent liabilities	<u>\$ 7,464,000</u>	<u>\$ 7,661,000</u>	<u>9,161,000</u>	<u>8,832,000</u>
Totals	<u>\$ 7,464,000</u>	<u>\$ 7,661,000</u>	<u>\$ 9,573,000</u>	<u>\$ 9,197,000</u>
Components of net periodic benefit cost and other amounts recognized in other changes in net assets				
Net periodic benefit cost:				
Service cost	\$ -	\$ -	\$ 157,000	\$ 205,000
Interest cost	1,697,000	1,682,000	383,000	381,000
Expected return on plan assets	(2,492,000)	(2,560,000)	-	-
Amortization of prior service cost	-	-	(115,000)	(432,000)
Amortization of net actuarial loss	<u>1,404,000</u>	<u>1,402,000</u>	<u>25,000</u>	<u>101,000</u>
Net periodic benefit cost at December 31	<u>\$ 609,000</u>	<u>\$ 524,000</u>	<u>\$ 450,000</u>	<u>\$ 255,000</u>
Unrecognized net loss included in net assets	\$17,406,000	\$18,212,000	\$1,439,000	\$1,103,000
Employer's contribution	-	2,500,000	410,000	371,000
Plan participants' contributions	-	-	49,000	45,000
Net periodic benefit costs	609,000	524,000	450,000	255,000
Benefit payments	(2,809,000)	(2,421,000)	(459,000)	(416,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Net actuarial (gain)/loss	\$ (806,000)	\$ (495,000)	\$ 336,000	\$ (630,000)
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	3.95%	4.15%	4.00%	4.25%
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-2016 for all years		RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2016 for all years	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

	Pension Benefits		Healthcare Benefits	
	2016	2015	2016	2015
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	4.15%	3.80%	4.25%	3.90%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Unrecognized actuarial loss:				
Beginning of year	\$18,212,000	\$18,707,000	\$ 1,103,000	\$ 1,733,000
Actual return on plan assets	(2,432,000)	950,000	–	–
Expected return on plan assets	2,492,000	2,560,000	–	–
Actuarial (gain) or loss	558,000	(2,603,000)	246,000	(961,000)
Amortization of net loss	(1,404,000)	(1,402,000)	(25,000)	(101,000)
Amortization of prior service cost	(20,000)	–	115,000	432,000
End of year	\$17,406,000	\$18,212,000	\$ 1,439,000	\$ 1,103,000

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 \$1,366,000. The estimated prior service cost 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 \$2,000. 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 \$42,000.

For measurement purposes, a 7.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016. The rate was assumed to decrease gradually to 5.00% until 2022 and remain at that level thereafter.

The target allocations of pension assets are outlined below:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2016	2015
Plan assets:			
Equity securities	57%	56%	60%
Fixed income	43%	44%	40%
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, 2016 AND 2015

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

2016 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	\$ 14,969,000	–	–	\$ 14,969,000
U.S. Equities Mutual Funds	12,535,000	–	–	12,535,000
International Equities Mutual Funds	6,547,000	–	–	6,547,000
Totals	<u>\$ 34,051,000</u>	<u>–</u>	<u>–</u>	<u>\$ 34,051,000</u>

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	<u>\$ 34,428,000</u>	<u>–</u>	<u>–</u>	<u>\$ 34,428,000</u>

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, 2016 and 2015.

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, 2016 AND 2015

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 2017 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 \$8,635,000 and \$8,612,000 for the years ended December 31, 2016 and 2015, 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, 2016 and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 6,714,000
2018	6,021,000
2019	5,695,000
2020	5,666,000
2021	5,442,000
Thereafter	<u>29,729,000</u>
Total	<u>\$ 59,267,000</u>

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, 2016 and 2015, advance deposits collected totaled \$68,422,000 and \$59,712,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2016 and 2015, pursuant to various office space leases, the Association has letter of credit agreements totaling \$2,632,000 and \$2,940,000, respectively. 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 2017 and 2028. There were no payments drawn against these letters of credit by any of the beneficiaries during 2016 and 2015.



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2016 ANNUAL REPORT & FINANCIAL STATEMENTS

MAY 23, 2017 | NEW YORK, NY