



AMERICAN  
ARBITRATION  
ASSOCIATION®

AAA-ICDR®  
COUNCIL

# 2019 **Annual Report**

& Financial Statements

Advancing the future of alternative dispute resolution

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## OUR SHARED MISSION

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

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## 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.**

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## 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.

### DIVERSITY AND INCLUSION

We are committed to the recruitment, retention and advancement of a diverse and inclusive Panel, Council and workforce, and seek to advance diversity and inclusion in all aspects of the AAA's work.

In 2019 alone,

the American Arbitration Association® (AAA®)

administered

**\$18.4  
billion**

**in B2B claims and counterclaims.**

# PRESIDENT'S LETTER

Dear Stakeholders,

In this Annual Report, you will see many examples of the American Arbitration Association (AAA) living up to parties' expectations for private dispute resolution, whether we are promoting cybersecurity best practices, empowering parties to fashion the dispute resolution process best suited to their needs, or designing sensible ADR processes for specific sectors of the economy.

At its heart, however, the AAA is a very public institution. We are a not-for-profit organization dedicated to serving the public. We are also front-and-center in the public eye and approach public outreach with enthusiasm. AAA executives—in partnership with the members of our Board and Council—engage with organizations and individuals throughout the world every day to promote peaceful resolution of disputes.

If you visited [adr.org](https://adr.org) or viewed any AAA social media account in 2019, you encountered thought leadership—white papers, infographics, blog posts, surveys—grounded in our unparalleled experience and rigorous analysis. Those statistics are informative and compelling, but they also reduce the experiences of thousands of parties, arbitrators and mediators to cold, hard numbers. So, in addition to data on topics ranging from case filings to our diversity efforts, these pages offer more personal examples of public service and engagement with the world.

For instance, our Council represents a range of external viewpoints that help us make well-informed decisions. The AAA-ICDR Foundation® also looks outward, identifying new approaches to solving intractable problems facing communities in need around the world. Our Higginbotham Fellows Program welcomes promising individuals from backgrounds not well represented in ADR and helps them to set a long-term course in the field. Those are just some of the many ways in which the AAA's broad, concerted engagement efforts animate our public mission.

By measures subjective and objective, we had another successful year in 2019. Filings of new claims in the Commercial and Construction Divisions grew, as was the case for the Labor, Elections, Employment and Consumer Division. The New York State Insurance Division had a record year.

The AAA itself grew to keep pace with the needs of parties: headcount increased by 10%, a new office opened in Cleveland, and offices in Buffalo and Singapore expanded.

The AAA's commitment to engagement and having a positive impact is how we honor the public's faith in our services.

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**AND OFFICES IN BUFFALO AND SINGAPORE EXPANDED.**



*India Johnson*

**India Johnson,**  
President & Chief Executive Officer



# **DIVISIONAL REPORTS**



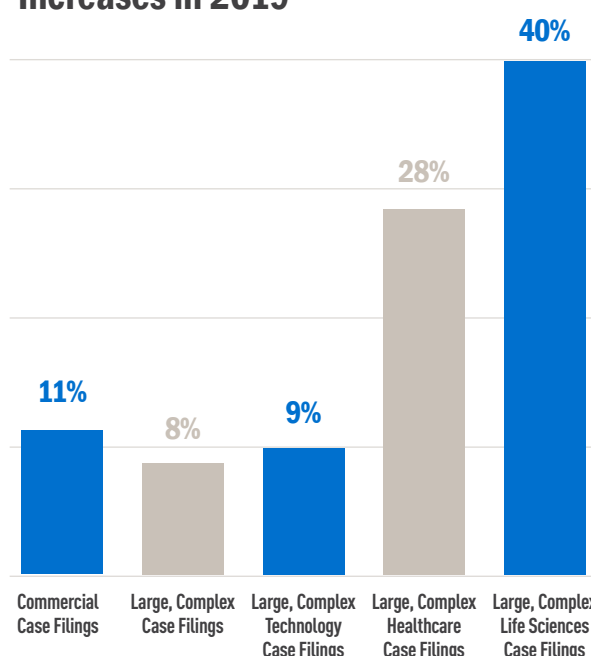
# COMMERCIAL DIVISION

**Commercial Division case filings increased 11% in 2019. For the Division’s largest, most complex disputes, filings increased 8%, driven by fast-growing caseloads in the technology (9%), healthcare (28%) and life sciences (40%) sectors.**

Commercial Division case filings increased 11% in 2019. For the Division’s largest, most complex disputes, filings increased 8%, driven by fast-growing caseloads in the technology (9%), healthcare (28%) and life sciences (40%) sectors. New divisional committees in energy and financial services, as well as the AAA Council’s Healthcare Advisory Committee and its new life sciences subcommittee, maintained a dialogue with stakeholders across key industry sectors. Results of these efforts included a set of benchmarks for assessing AAA panelists’ life sciences expertise. Division executives also serve in leadership positions on several American Bar Association committees. Pursuing broad, sustained engagement, the Division sponsored the Sports Lawyers Association’s Annual Conference, conducted a survey of AAA panel members on arbitration best

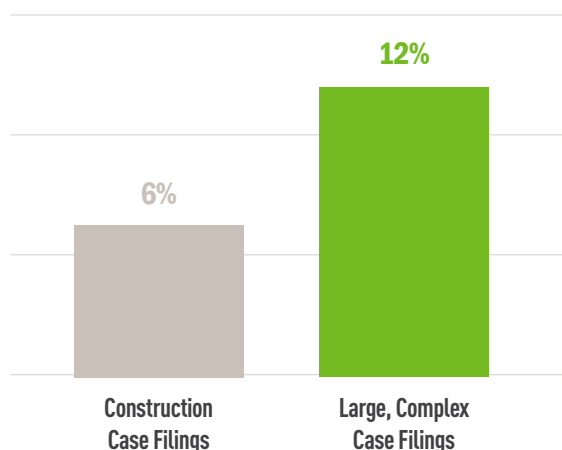
practices, participated in the cutting-edge Global Legal Blockchain Consortium, and presented at numerous other conferences and events.

**Commercial Caseload Increases in 2019**



## CONSTRUCTION DIVISION

### Construction Caseload Increases in 2019



**Construction Division** filings rose 6% in 2019, and the number of large new cases rose 12%. AAA executives were also involved in key construction industry events, including the ABA Forum on Construction Law meetings, the National Society of Professional Engineers, the Women in Construction Conference and the Construction SuperConference, as well as countless presentations at regional events, law firms and companies. Additionally, the AAA held its annual Construction Conference in Miami.

## LABOR, ELECTIONS, EMPLOYMENT AND CONSUMER DIVISION

The **Labor, Elections, Employment and Consumer Division** continued to innovate and expand access to ADR services and added staff to satisfy the growing needs of its caseload.

Division executives immersed themselves in issues of concern to the labor and employment community. Diversity recruitment efforts yielded results. In 2019, 45% of Labor and Employment panelists added by the Division were either women, minorities or both.

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The AAA co-sponsored a conference with the New York University School of Law on “Addressing Challenges to Employment Arbitration” which covered topics including motion practice, fee-shifting and pro se claimants. The Division was well represented at numerous other regional and national conferences. The AAA also offered its own courses across the country, on topics like “Successful Labor Arbitration Techniques” and witness preparation, helping advocates to hone their skills and better serve parties in labor disputes.

The **Elections Department** saw unprecedented use of its services, setting records for total ballots mailed and total ballots received. The voting process grows more efficient, accessible and reliable through advances such as e-balloting and ballot scanning.

In 2019, the Division saw a 9% increase in claims involving consumers, who benefitted from programs and innovations designed to resolve disputes in less time. More than 300 North Carolina homeowners impacted

by Hurricanes Florence and Dorian took part in AAA-administered mediations, with a 63% settlement rate. A new platform encourages parties in **Consumer** and Minnesota No-Fault cases to negotiate settlements more efficiently online. As the AAA works toward a roster that fully reflects the broader society, 33% of Consumer panelists—and 32% of panelists appointed on Consumer cases in 2019—identified as diverse.

In 2019, the AAA’s **Minnesota No-Fault** office rolled out an enhancement that streamlined its Online Scheduling Platform. Now parties involved in multiple cases can view a single master calendar for all of them, saving time and allowing users greater flexibility.

The **Pro Se** team provided administration services tailored to the needs of parties not represented by attorneys, receiving 1,494 new cases and resolving 1,094 cases in 2019, 61% of which settled.

# AAA NEW YORK STATE INSURANCE DIVISION

In 2019, the **AAA New York State Insurance Division** received 334,597 no-fault automobile insurance case filings—a record—in addition to 2,531 Supplemental Underinsured/Uninsured Motorists filings. The total in asserted claim amounts for the Division’s no-fault cases

surpassed \$1 billion after factoring in regulatory interest. The Division continued to find innovative ways to manage the ever-expanding case volume, analyzing hundreds of thousands of data points to guide that process. In 2019, users saw the benefits of initiatives including:



A new system for classifying cases that makes it easier to communicate with users;



Reporting that offers insights into the most cost-effective approaches to resolving different types of cases; and



A series of Collective Mediation Conferences where hundreds of similar, single-issue cases can be resolved efficiently, in one place at one time.

**By listening to the concerns of users and then delivering solutions, the Division is resolving disputes for thousands of New Yorkers every day.**

## AAA MEDIATION.ORG

In 2019, the number of mediations for disputes originally filed for arbitration rose 3%, and **AAA Mediation.org<sup>SM</sup>** delivered advanced training programs and events devoted to the most challenging topics in the field. Participating in events around the world, often with collaboration across American Arbitration Association-International Centre for Dispute Resolution divisions (AAA-ICDR<sup>®</sup>), AAA Mediation.org:

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**AAA Mediation.org's training portfolio also added new, sophisticated programs on blending advanced mediation strategies, global commerce mediation, the interplay of psychology and mediation strategy, and employment mediation techniques.**

- ⊕ Co-hosted an international ADR symposium in Florence, Italy in partnership with the International Centre for Dispute Resolution<sup>®</sup> (ICDR<sup>®</sup>);
- ⊕ Presented at the Mediation in Investor-State Arbitration Colloquium at Harvard University;
- ⊕ Moderated a panel on innovations in large-case ADR during the AAA Construction Conference;
- ⊕ Developed and facilitated the Southern California Mediation Association's 2019 Advanced Track Mediation training; and
- ⊕ For the second year in a row, planned and moderated the American Bar Association's two-day Advanced Mediation and Advocacy Skills Institute.

## INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION

The **International Centre for Dispute Resolution (ICDR)**, the AAA's international division, once again showed its capacity to accommodate parties' preferences for a wide range of dispute resolution rule sets. The ICDR's International Arbitration Rules, available in nine languages, and the AAA's Commercial Arbitration Rules were both popular choices, but so were the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

In addition, the U.S. Department of Commerce continued to rely on the AAA-ICDR to provide dispute resolution services under the Privacy Shield program for companies self-certifying compliance with European Union and Swiss regulations on handling personal information.

The AAA-ICDR is also inspiring a new generation of international dispute resolution professionals. Law students—19 teams from seven countries—argued cases before dozens of arbitrators during the 12th Annual ICDR Practice Moot and Lecture Series. Through the ICDR-sponsored Young and International program, over 2,800 ADR practitioners under the age of 40 had the opportunity to attend networking and educational events globally throughout the year. Membership is free.

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# **AAA-ICDR COUNCIL**

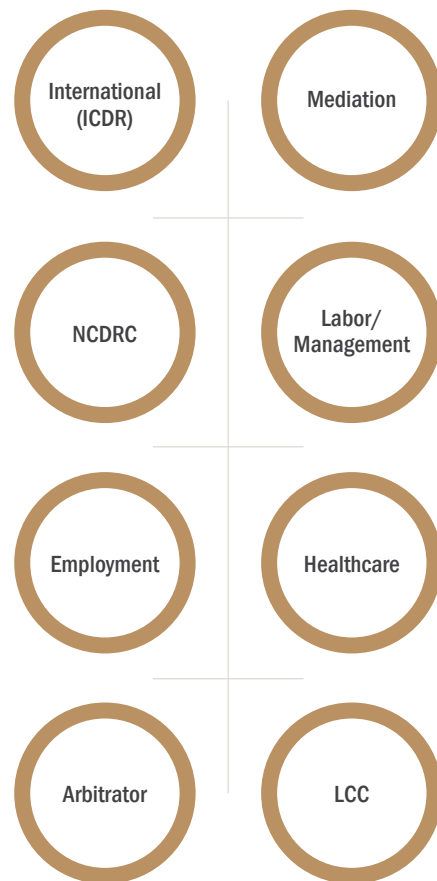
**A SOURCE OF EXPERTISE AND GUIDANCE**



**The AAA-ICDR’s governing and advisory bodies offer a clear view on the world the AAA-ICDR serves.**

The AAA-ICDR Council ended 2019 with 93 members—from across the United States and from 12 other countries. Of those, 18 also served as Board members and another 10 as honorary Board members. Council members can be business executives, arbitrators, retired judges, corporate general counsel, union representatives, engineers or accountants, and lawyers from some of the world’s most prestigious law firms. All are leaders in their fields who make it possible for the AAA-ICDR to maximize its impact. The AAA-ICDR makes an effort to solicit input from a range of viewpoints, and the numbers show that: 75% of those who joined the AAA-ICDR Council in 2019 are diverse in terms of gender or ethnicity.

**COUNCIL MEMBERS SERVE ON A VARIETY OF CASELOAD-FOCUSED COMMITTEES:**





The **Large Case Committee** explores how companies, their attorneys and arbitrators can manage complex cases more effectively. In 2019, Committee members drafted best practice guides on topics such as controlling e-discovery burdens, strategies for dispositive motions and use of experts, which are now available to the public on a new AAA Large Complex Case landing page. The Committee also formed two subcommittees to focus on discovery procedures and to review issues related to disclosures of third party funding.

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The **National Construction Dispute Resolution Committee (NCDRC)**,

with external participation from 28 member organizations, continued its sixth decade of exploring new approaches to managing disputes—whether they relate to building construction, infrastructure or multinational industrial mega projects—and meeting the evolving needs of project stakeholders. Its subcommittees recommend improvements to the AAA’s construction case management practices and procedures. In 2019, the Panel Development Subcommittee of the NCDRC launched a program to connect first-time AAA arbitrators from diverse backgrounds with seasoned mentors on the panel.

Given the highly technical nature of many Construction Division disputes, in 2019 the NCDRC investigated how well AAA panelists’ resumes reflected their technical expertise. That survey identified opportunities for arbitrators to better communicate their skills to case managers and parties.

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Diverse candidates might benefit from proving for themselves that they can succeed as full-time labor arbitrators. In 2019, the union and management representatives, as well as panelists, on the **National Labor/Management Committee** arrived at that conclusion after in-depth deliberation. Arbitrators cannot also represent unions or management while serving on the Labor Panel. That long-standing requirement leaves no question about their neutrality. However, otherwise qualified candidates may be reluctant to abandon established careers to join a panel that does not yet include more models for success who resemble them. Accordingly, the committee recommended that new, diverse arbitrators be given up to five years to decide whether to become full-time panelists before being required to withdraw from all advocacy work.

The **Employment Committee** focused on the proliferation of employment cases. It began considering refinements to rules that permit cases to move forward where balances for administrative fees and arbitrator compensation remain outstanding. Committee members also participated in an employment arbitration conference co-sponsored by the AAA and the New York University School of Law and helped develop a webinar for arbitrators about the Fair Labor Standards Act Discovery Protocols that will be available in 2020.

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In 2019, the **Arbitrator Committee** mined the collective experience of AAA panelists to develop guidance for panelists themselves, as well as for AAA case administrators and executives. One post-case survey targets the dynamics on three-arbitrator panels:

division of labor, decision-making and writing an award. The other encourages sole arbitrators to reflect on lessons learned and areas for improvement. Statistics generated from these surveys will help the AAA develop better training programs and other resources for arbitrators.

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In 2019, the Council's **Mediation Committee** completed a study on administrative fee billing and launched ongoing studies regarding the Master Mediator Panel and the Affiliate Mediator Program.

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# **AAA-ICDR FOUNDATION**

**PROMOTING CONFLICT RESOLUTION  
FOR COMMUNITIES IN NEED**

**Since its inception in 2015 through the end of 2019,**

**the AAA-ICDR Foundation issued 52 grants,**

**totaling approximately**

**\$1.6  
million**

**to 38 organizations.**

The American Arbitration Association-International Centre for Dispute Resolution Foundation® (AAA-ICDR Foundation®) is a standalone 501(c)(3) not-for-profit organization. It shares the AAA-ICDR's commitment to expanding the use of ADR around the world, with a focus on providing grants to organizations working to fulfill unmet needs in dispute resolution.

**IN 2019, THE AAA-ICDR**

**FOUNDATION RAISED**

**\$1,996,290**

In 2019, the AAA-ICDR Foundation raised \$1,996,290: \$654,769 from AAA panelists who donated half of their annual panel fees, \$1,202,736 from the AAA itself and \$138,785 through other donations. The field of ADR benefits from the Foundation's special ability to amplify that funding. The Board of Directors, with its wealth of legal, academic and ADR experience, selects grants through a competitive application process.

Since its inception in 2015 through the end of 2019, the AAA-ICDR Foundation issued 52 grants, totaling approximately \$1,600,000, to 38 organizations. The Foundation's grant-making activity nearly tripled in that time, from six grants totaling \$175,000 for its initial funding cycle to 16 grants totaling more than \$475,000 for the 2019 cycle.

The Foundation funds a broad mix of initiatives, including for vulnerable and underserved populations, with an emphasis on organizations that, among other things, provide restorative justice, cultivate dialogue in the face of civil unrest and improve community-police relations.

Insights gleaned over multiple grant cycles put the Foundation in a better position to evaluate the need for ongoing support. In 2019, it extended funding for an additional year to some grantees:

- ⊕ **\$17,400 to 2018 grantee ACR Elder Justice Initiative on Eldercaring Coordination**, a conflict-resolution process for families for which elder care and safety are top concerns.
- ⊕ **\$45,000 to Divided Community Project/The Ohio State University Foundation**, which received a grant for the third year in a row, to provide training and post-event support to leaders across the nation, equipping them to strengthen democratic engagement and address civil unrest and community division.
- ⊕ **\$21,000 to the D.U.C.K.S - Institute for Communication and Management of Conflicts'** Prison of Peace program. The Foundation initially funded the program in California and is now helping to expand it for a second year in Greece.

Other grants awarded in 2019 supported community dialogue and conflict resolution programs, training in mediation and negotiation practices in the U.S. and abroad, and free ADR services, among other projects. A full list of grantees appears on the [Foundation's website](#).



# **DIVERSITY AND INCLUSION**

## BY THE NUMBERS

The AAA serves everyone: union members participating in elections, homeowners, consumers, motorists in New York and Minnesota, and employees as well as their employers—across the country and around the world. It is vital that all encounter

administrators, arbitrators, mediators and practitioners who reflect the broader society. In service of that goal, the AAA continued to diversify its roster, embrace those underrepresented in the field and help to ensure a more inclusive future for ADR.

### 38%

In 2019, 38% of new panel members were women and/or minorities. The proportion of women and minorities on the AAA's roster has grown steadily, from 23% in 2017 to 26% in 2019.

### 93%

In 2019, 93% of arbitrator lists were at least 20% diverse in terms of gender and/or ethnicity. This is a significant increase over 2017 and 2018.

### 30%

30% of appointments on B2B cases in 2019 were diverse.

### 47%

47% of AAA executives are women, and 26% identify as minority.

### 57%

57% of speakers at AAA events in 2019 were women or identified as diverse.

### 75%

Members of the AAA-ICDR Council assist with ADR research and help to review and revise procedures and rules. As noted earlier, 75% of new Council members for 2019 are diverse in terms of gender or ethnicity.

These efforts also involve extensive outreach to diverse communities of ADR practitioners. The AAA sponsored and presented at numerous national conferences and other events, including a day-long educational program at the National Bar Association Annual Conference.

The AAA wants sustained, long-term progress in this area. That can only be achieved by familiarizing diverse young professionals and students with potential careers in ADR—and then ensuring that they have genuine opportunities and strong support networks to guide them along the way.

In that spirit, the AAA held a day-and-a-half program in November 2019 titled “Diversity Student ADR Summit: Roadmap to a Career in ADR” to give participants an “in-depth understanding of what it really takes to become a successful arbitrator and/or mediator.” Admission was competitive, with essays and letters of recommendation required. Out of 138 applicants, 21 students were selected, and the AAA offered each a \$1,300 travel stipend to ensure that all had the capacity to attend.

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The summit offered ample networking opportunities for the students as well as expert-led panels on creating a roadmap for a career in ADR and building an ADR practice. According to Senior Vice President Harold Coleman, who helped lead the programming, “The presentations were stimulating and social interactions inspiring. Candidates reported having not only obtained a clearer perspective on what lies ahead, but also on the many opportunities that await them to contribute to ADR practice and thought leadership. Investing in the future leadership of ADR was a gratifying experience for all involved.”



## AAA HIGGINBOTHAM FELLOWS PROGRAM

2019 marked the 10th anniversary of the AAA's A. Leon Higginbotham, Jr. Fellows Program, which is named after the first African American District Court Judge for the Eastern District of Pennsylvania and seventh African American appointed as an Article III judge.

It offers an intensive, week-long training program for up-and-coming dispute resolution professionals from diverse backgrounds traditionally underrepresented in the field. Fellows visit the AAA's offices in New York for lectures, interactive seminars, mock arbitrations and mediations, and other events. Each Fellow is matched with an AAA panelist who serves as a mentor. Many of the program's 134 alumni who applied have become AAA panelists themselves, with the majority of those panelists serving on cases. Others have become more directly involved in the AAA's operations.

Ingeuneal Gray is a Vice President in the AAA's Houston office and co-chair of its Diversity and Inclusion Committee. After building her own transactional law practice focused on commercial clients she also began to work as a mediator: "I knew I wanted to be successful in ADR but didn't quite know what that looked like at the time."

**2019 marked the 10th anniversary of the AAA's A. Leon Higginbotham, Jr. Fellows Program.**

Selected for the 2015 class of Fellows, Ms. Gray “was just in awe of all the information and resources. The program created a better understanding of the process and connected all the dots from the standpoint of transaction attorneys drafting clauses, litigators representing parties, mediators and arbitrators as neutral facilitators, and case administrators.” Soon after the program ended, she was hired by the AAA: “After meeting members of the staff, I could see the AAA’s dedication to keeping the process fair and cost-effective and the commitment to increasing diversity in the field.”

At the time Theo Cheng was selected as a Higginbotham Fellow in 2013, he was a law firm partner who had been “exploring the field on my own; volunteering as an arbitrator and mediator in the courts; and securing a few private, paid mediation opportunities.” Mr. Cheng said the training sessions

“opened my eyes to the greater ADR field and prepared me to take the next steps towards becoming a true ADR professional.” He later joined the AAA’s roster. A member of its Large Complex Case panel, among others, he was also elected to the AAA’s Board of Directors and became a member of its Council and co-chair of its Mediation Committee.

In his view, diversity benefits the entire ADR process. “As is the case for the judiciary, an ADR profession dominated by individuals of one background, perspective, philosophy or persuasion is neither healthy nor ideal. Rather, the professionals who sit as neutrals should reflect the diverse communities of attorneys and parties whom they serve. A diverse pool of neutrals also instills confidence in those constituents and ensures a measure of fairness, public access and public justice.”

# ADMINISTRATIVE REVIEW COUNCIL

In 2019, the average claim amount for large cases administered by the AAA was \$7,000,496, and the average counterclaim amount was \$3,303,922. Complex issues arise in the administration of larger cases, and the AAA offers an added level of support on those matters: the Administrative Review Council (ARC). The ARC provides for the fair, consistent interpretation of AAA rules regarding objections to arbitrators, locale determinations and questions about whether filing requirements have been met.

The ARC comprises current and former AAA executives. They convene weekly and hold additional emergency sessions when necessary. From its establishment in 2013 through 2019, the ARC reviewed 1,271 issues on open cases. The ICDR formed its

own International Administrative Review Council in 2018 and addressed another 128 issues through the end of 2019.

**From its establishment in 2013  
through 2019, the ARC reviewed**

# 1,271

**ISSUES ON OPEN CASES**

The ARC system was designed with fairness, consistency and transparency in mind. Its Review Standards and Guidelines are available **online**.

# TECHNOLOGY

The AAA has always been a force for innovation in the field of dispute resolution. More than ever, those efforts now depend on cutting-edge technology.

Over the past decade, robust case management platforms have revolutionized the way parties experience the AAA's services. Today, through AAA WebFile®, parties initiate arbitrations, pay neutrals' invoices, and manage conference and hearing calendars. Off-site backups, sophisticated data encryption and stress tests all keep critical systems up and running and sensitive case information secure.

In 2019, the AAA continued its aggressive investment in technology. The **Information Services Department (IS)**—with its team of software developers and analysts—drove a series of initiatives:

A new **Innovation Program** is the natural culmination of the AAA's technology-first approach to ADR. This working group harnesses talent from across the organization to develop infrastructure, software and training programs. Already in its pipeline are plans for an elections system built on a blockchain and further integration of panelists into the AAA's online ecosystem.

## **Piloting a new cybersecurity boot camp was the Innovation Program's top priority in 2019.**

Piloting a new **cybersecurity boot camp** was the Innovation Program's top priority in 2019. Arbitrators and mediators are not always affiliated with large organizations using enterprise-grade security. The AAA saw an opportunity to help them. Panelists leave the hands-on workshop armed with more secure laptops and practical guidance on how to keep them that way.

## AAA INNOVATION TIMELINE

The AAA continues to build its capacity to offer parties and neutrals a **media-rich hearing experience**.

Across the country in 2019, IS upgraded conference facilities. More reliable wireless technology, higher-resolution video feeds and larger screens all enhance the user experience, especially for those attending hearings remotely.

Being prepared for worst-case scenarios has become essential in an interconnected, digital world. In 2019, the AAA completed detailed **business continuity plans** for responding to unexpected, catastrophic events, from cyberattacks to natural disasters. AAA executives joined tabletop simulations, wrote playbooks and primed staff to act on them.

Year after year, the AAA finds ways to leverage advances in communications, security and business practices to make ADR more efficient, more cost-effective and more accessible.



### 1992

The AAA's intranet connects its offices online for the first time.



### 1995

The adr.org website launches.



### 2000

"Click and vote" online elections go live.



### 2001

The AAA convenes a 35-person working group that develops the eCommerce Dispute Resolution Protocol.



### 2005

The Panelist eCenter platform offers neutrals a new web interface for managing cases.



### 2009

Claimants in labor arbitrations start filing demands through the AAA's online system.



### 2013

The AAA launches its first cloud-based case management application.



### 2018

The AAA introduces streamlined methods for filing new cases and managing case finances.

# AAA-ICDR SINGAPORE CASE MANAGEMENT CENTER

In 2019, 199 cases involving parties from across Asia were filed with the ICDR, reflecting a significant increase in administration activity over the past decade. The ICDR has been building its presence in Asia since 2007. Singapore is a leading hub for business transactions and dispute resolution in Asia. In 2019, the ICDR expanded its offices at Maxwell Chambers into a full-service Case Management Center, adding staff in the process.

2019 was a watershed year for dispute resolution in Singapore. In August, the AAA-ICDR was the headline sponsor of the first IBA Asia Pacific Arbitration Conference, which coincided with the opening for signature in Singapore of the United Nations Convention on International Settlement Agreements Resulting from Mediation (the “Singapore Convention on Mediation”).

The IBA Conference programming covered the rise of investment arbitration in Asia; innovative approaches to arbitration; and the importance of input from lawyers, arbitrators, government institutions and other stakeholders as the process evolves.

## **In 2019, the ICDR expanded its offices at Maxwell Chambers into a full-service Case Management Center, adding staff in the process.**

Singapore serves as its base, but the scope of the AAA-ICDR’s efforts throughout Asia sets it apart from other arbitral institutions in the region. In 2019, the AAA-ICDR convened an Asia Advisory Committee. These ADR experts share insights on broader trends and local variations in practice. Staff in Singapore also collaborated with chambers of commerce in different countries and plan to hold more local events throughout the region in the future.

The AAA is in the right place at the right time to support the growing demand for ADR services throughout Asia. Having a physical presence in the region to administer cases is important to the AAA-ICDR’s plan to encourage adoption of ADR while building its own capacity to support that growth.

## THE AAA'S VALUE PROPOSITION

The AAA is dedicated to achieving fairer, more efficient and more cost-effective outcomes in disputes. With its large, varied caseload, the Association is in a unique position to deliver on that promise.

Taking that responsibility to heart, the AAA is constantly examining patterns and trends across its caseloads, reporting on what it finds and acting on it. When parties choose the AAA to administer a matter, they expect a streamlined process that saves time and money and provides access to neutrals with the right expertise to evaluate the merits of their case.

The AAA's commitment to those principles is evident in its fee schedules. The Association does not take any portion of arbitrators' hourly fees in the manner that other ADR providers might. As a result, the AAA's interest in reducing the time to settlement or a final award is more in line with the financial interests of parties.

The AAA works in other ways to make ADR services accessible to parties, independent of their ability to pay. In 2019 alone, the AAA granted over \$1,200,000 in fee waivers to parties demonstrating financial need, honoring its long-standing commitment to ensuring access to fair, affordable means of resolving disputes.

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ADR offers parties an opportunity to appoint neutrals with specialized expertise in the subject matter of their dispute. AAA executives put careful thought into panel composition, recruiting neutrals with the most in-demand credentials, from judicial experience to backgrounds in particular industries or technical disciplines.

New panelists take part in a formal, multi-day training program and, from then on, complete annual Arbitrator Continuing Education classes. The AAA wants arbitrators to understand their role, the importance of perceived and actual impartiality, and what it takes to manage issues they are likely to encounter. The response has been positive. Parties completing post-case surveys—regardless of how they fared in their disputes—rated arbitrator performance even higher in 2019 than they did in 2018.

Choosing ADR administration services only makes sense if the system presents a better alternative to litigation or self-administration. Cost savings are an important consideration, but they are far from the only consideration. The AAA never stops pursuing opportunities to improve the ADR experience, even if the impact of those changes might not seem so obvious to the parties.

**Parties completing post-case surveys—regardless of how they fared in their disputes—rated arbitrator performance even higher in 2019 than they did in 2018.**



# TRANSPARENCY

The Association's mission is to encourage peaceful resolution of disputes by offering alternatives to protracted, expensive litigation. To further that goal, the AAA strives for transparency, sharing data on outcomes, cost savings, and the opinions of parties and neutrals about the quality of their experiences with the AAA. Here is a small sampling of information the AAA made available in 2019:

## THE AAA CASE TRACKER

The AAA Case Tracker at [adr.org](https://adr.org) prominently displays how many cases the AAA has resolved in the current year and how many cases have been filed since 1926. The Association was the first arbitral institution to make this aggregate case data public.

## POST-CASE SURVEY

Whenever arbitrators issue an award, the AAA asks them to complete a post-case survey. Their responses help pinpoint areas for improvement but also serve as the basis for statistics the AAA publishes. The public can learn about the most common sources of delay and increased costs, the degree to which motion practice occurs, the extent to which parties exchange discovery, and common gaps in parties' arbitration clauses. This concrete, actionable guidance is available to all those who are interested in arbitration, whether or not they select the AAA to administer a case.

## ANNUAL STATISTICS

The AAA also publishes annual statistics on its B2B cases. In 2019, the AAA administered 9,737 of those cases, representing \$18.4 billion in total claims and counterclaims. These statistics are also broken out by subject matter, with telecommunications (29%), financial services (58%) and cannabis (225%) caseloads seeing the most growth.

## INDEPENDENT SURVEYS

The AAA encourages its staff to participate in independent surveys that measure satisfaction with their jobs and with the organization. In 2019 and 2020, the AAA was named one of the "50 Best Nonprofits to Work For" by Nonprofit Times. A significant proportion of AAA staff contributed ratings and opinions to both surveys.

## PANELIST POLLING

In late October of 2019, the Commercial Division polled its panelists on arbitration best practices and then presented the results at the Association of Corporate Counsel's 2019 Annual Meeting in Phoenix.

Sharing information with the public is the best way to promote the potential benefits of ADR and to hold the AAA accountable for making them a reality. The AAA has a unique responsibility in this regard. Administering so many thousands of cases each year yields reliable data and meaningful insights worth sharing with the world.



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AMERICAN ARBITRATION ASSOCIATION®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2019

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 sheet as of December 31, 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the 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, 2019, and the results of its operations and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



New York, New York  
May 1, 2020

CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2019

**ASSETS**

|  |                              |
|--|------------------------------|
| CASH AND CASH EQUIVALENTS  | \$ 23,115,000                |
| RESTRICTED CASH  | 4,860,000                    |
| INVESTMENTS - At Fair Value  | 172,721,000                  |
| ADMINISTRATION FEES RECEIVABLE, Less allowances for<br>cancellations and uncollectible accounts of \$430,000 | 22,543,000                   |
| OTHER RECEIVABLES  | 776,000                      |
| PREPAID EXPENSES   | 3,494,000                    |
| INTERNAL-USE SOFTWARE DEVELOPMENT<br>AND CONSTRUCTION IN PROGRESS  | 649,000                      |
| FURNISHINGS, EQUIPMENT, IT SYSTEMS<br>AND LEASEHOLD IMPROVEMENTS - Net                                       | <u>21,509,000</u>            |
| TOTAL ASSETS   | <u><u>\$ 249,667,000</u></u> |

**LIABILITIES AND NET ASSETS**

LIABILITIES:

|                                       |                    |
|---------------------------------------|--------------------|
| Accounts payable and accrued expenses | \$ 111,976,000     |
| Accrued postretirement medical costs  | 11,610,000         |
| Agency fund                           | 4,860,000          |
| Deferred rent                         | 5,211,000          |
| Deferred revenue                      | <u>37,206,000</u>  |
| Total Liabilities                     | <u>170,863,000</u> |

Commitments and Contingencies

NET ASSETS:

|                                  |                              |
|----------------------------------|------------------------------|
| Without donor restrictions:      |                              |
| Undesignated                     | 2,355,000                    |
| Board Designated                 | <u>76,449,000</u>            |
| Total without donor restrictions | <u>78,804,000</u>            |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 249,667,000</u></u> |

*See notes to consolidated financial statements.*

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN  
NET ASSETS YEAR ENDED DECEMBER 31, 2019

**OPERATING REVENUES**

Administration fees earned:

|                 |                    |
|-----------------|--------------------|
| Commercial      | \$ 66,055,000      |
| State insurance | 34,333,000         |
| Labor           | 5,079,000          |
| Elections       | 5,242,000          |
| Total           | <u>110,709,000</u> |

Publications and education 1,374,000

Other operating income 1,596,000

Total 113,679,000

**OPERATING EXPENSES**

Administration of tribunals 93,026,000

Elections 5,142,000

Publications and education 1,466,000

General and administration 6,081,000

Total 105,715,000

**Net Operating Income**

7,964,000

**NON OPERATING INCOME AND EXPENSES**

Investment return, net 12,264,000

Pension plan termination (19,760,000)

Loss on disposal of assets (21,000)

**CHANGE IN NET ASSETS WITHOUT DONOR  
RESTRICTIONS BEFORE CHANGE IN NET ASSETS**

447,000

Pension liability adjustment 17,379,000

Postretirement medical obligation adjustment (2,299,000)

**CHANGE IN NET ASSETS WITHOUT  
DONOR RESTRICTIONS**

15,527,000

**NET ASSETS WITHOUT DONOR RESTRICTIONS,  
BEGINNING OF YEAR, AS PREVIOUSLY REPORTED**

87,802,000

**ADJUSTMENT DUE TO CHANGE IN ACCOUNTING  
PRINCIPLE**

(24,525,000)

**NET ASSETS WITHOUT DONOR RESTRICTIONS,  
BEGINNING OF YEAR, AS RESTATED**

63,277,000

**NET ASSETS WITHOUT DONOR RESTRICTIONS,  
END OF YEAR**

\$ 78,804,000

*See notes to consolidated financial statements.*

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                   |
|---|-------------------|
| Change in net assets  | \$ 15,527,000     |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                   |
| Depreciation and amortization   | 4,884,000         |
| Bad debt and change in provisions for uncollectible accounts                                | 169,000           |
| Deferred rent   | (414,000)         |
| Net realized and unrealized gains on investments  | (9,284,000)       |
| Loss on disposal of assets  | 21,000            |
| Changes in operating assets and liabilities:  |                   |
| Increase in administration fees receivable  | (3,220,000)       |
| Decrease in other receivables   | 383,000           |
| Increase in prepaid expenses  | (145,000)         |
| Increase in accounts payable and accrued expenses   | 20,491,000        |
| Increase in accrued postretirement medical costs  | 2,415,000         |
| Decrease in accrued pension liability   | (3,502,000)       |
| Increase in agency fund   | 341,000           |
| Increase in deferred revenue  | 3,480,000         |
| Net cash provided by operating activities   | <u>31,146,000</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                     |
|---|---------------------|
| Purchase of furnishings, equipment, technology and leasehold improvements | (3,693,000)         |
| Proceeds from sale of investments   | 16,609,000          |
| Purchase of investments   | (30,261,000)        |
| Internal use software development and construction in progress            | (649,000)           |
| Net cash used in investing activities                                     | <u>(17,994,000)</u> |

**NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH** 13,152,000

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR** 14,823,000

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR** \$ 27,975,000

*See notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

### NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### ***Business and principles of consolidation:***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and 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.

#### ***New accounting pronouncements:***

For the year ended December 31, 2019, the Association adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This ASU addresses the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The provision requires the amount generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The pronouncement has been applied retrospectively.

The Association also adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Association expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Association has adopted ASU 2014-09 on January 1, 2019 using the retrospective method of transition for all contracts that are not complete as of the date of initial application.

The Association’s revenue for reporting periods ended after December 31, 2018 are presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Association’s historical accounting policy. The adoption of this pronouncement has resulted in some revenue being recognized upon the completion of services during later stages of cases rather than being recognized immediately upon billing. The net cumulative adjustment of adopting the new revenue recognition guidance was a \$24,525,000 reduction to net assets without donor restrictions as of January 1, 2019, of which \$22,362,000 related to the year ended December 31, 2018. This adjustment primarily related to commercial revenue on the consolidated statement of operations and changes in net assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

### ***Revenue recognition:***

Although the Association does not typically enter into legal contracts with customers, the acceptance of a demand for arbitration under any of the Association's fee schedules, or agreement to provide services, is considered a contract with customers for purposes of applying the revenue recognition guidance noted in ASU 2014-09. Payment terms vary by the type of services offered. The standard payment terms generally align with the timing of the services performed and do not include a financing component. The Association recognizes revenue when a performance obligation is satisfied by delivering the promised services to a customer, in an amount that reflects the consideration that the Association expects to receive in exchange for those services. A performance obligation is a promise in a contract to deliver a distinct service to the customer. At contract inception, the Association assesses the services promised and identifies each distinct performance obligation. The transaction price is allocated to each distinct performance obligation based upon the relative benefit derived by the customer from the completion of each obligation.

### ***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. Under certain limited circumstances, the initial filing fee is eligible for refund following this commencement. Based on analysis of current trends, the Association recorded a provision for deferred revenue in 2019 of \$274,000 which is included in the accompanying consolidated balance sheet and represents the estimated amount of future refunds.

Most cases administered by the Association utilize fee schedules with an initial filing fee and a subsequent case management or final fee billed at a later stage of a case. For these cases, a portion of the initial filing fee is recognized upon filing, with the remainder recognized upon completion of arbitrator appointment. The subsequent fee, typically billed in advance of the first scheduled hearing, may be refundable at the conclusion of the case if no hearings have occurred. Revenue from the case management or final fee is recognized as each performance obligation is completed, usually following the completion of evidentiary hearings or the closure of a case.

In cases utilizing a simple fee schedule with only an administrative filing fee, a portion of that fee is recognized as revenue upon filing, with the remaining balance recognized as each performance obligation is completed, usually following the appointment of the arbitrator and the closure of the case.

In accordance with ASU 2014-09, the Association recorded deferred revenue from administration fees of \$35,465,000 as of December 31, 2019, which is included in the accompanying consolidated balance sheet.

Registration fees for educational programs and other services may be payable in advance prior to an education program event or delivery of services. As of December 31, 2019, deferred revenue from education and services revenue of \$94,000 is included in deferred revenue in the accompanying consolidated balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

A panel 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. As of December 31, 2019, payments received in advance of the start of the assessment year totaling \$508,000 is included in deferred revenue in the accompanying consolidated balance sheet.

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. As of December 31, 2019, such deposits received in advance of demands for arbitration being filed totaling \$865,000 is included in deferred revenue in the accompanying consolidated balance sheet.

### ***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. Cash and cash equivalents were \$23,115,000 as of December 31, 2019.

### ***Restricted cash:***

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total shown in the consolidated statement of cash flows:

|  |                      |
|--|----------------------|
| Cash and cash equivalents  | \$ 23,115,000        |
| Restricted cash  | 4,860,000            |
| Total cash, cash equivalents, and restricted cash shown<br>in the consolidated statement of cash flows | <u>\$ 27,975,000</u> |

Restricted cash represents funds designated for the EU-US Privacy Shield Annex I Binding Arbitration Mechanism, which the Association's international division, the International Centre for Dispute Resolution, manages for the U.S. Department of Commerce. This program requires participating organizations of the EU-US Privacy Shield program to pay a periodic contribution to the fund to be used for the costs associated with the arbitrations arising out of the Privacy Shield program. The Association records restricted cash and a corresponding liability for amounts received from these participating organizations. The restricted cash and corresponding liability balance as of December 31, 2019 is \$4,860,000.

### ***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 \$35,475,000 as of December 31, 2019. The Association places its cash and cash equivalents with creditworthy, high-quality financial institutions. Credit risk with respect to administration fees receivable is also

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

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 as investment return (loss) in the consolidated statement of operations and changes in net assets.

### ***Furnishings, equipment, IT systems and leasehold improvements:***

Furnishings, equipment, IT Systems 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.

### ***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 Association 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, 2019. The Association's Federal and state income tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Association will recognize interest and penalties associated with tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position. There were no interest or penalties paid for the year ended December 31, 2019.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

### ***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:***

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified as follows:

*Net assets without donor restrictions* - net assets that are not subject to donor imposed stipulations. The Association's board may designate assets without restrictions for specific operational purposes from time to time.

*Net assets with donor restrictions* - net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Association did not have any net assets with donor restrictions as of December 31, 2019.

An operating reserve fund designated by the Board totaled \$76,449,000 as of December 31, 2019. Board designated net assets are net assets without donor restriction 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 2019.

### ***Subsequent events:***

The Association has evaluated subsequent events through May 1, 2020, which is the date the consolidated financial statements were available to be issued.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

### NOTE 2 - INVESTMENTS:

Investments at December 31, 2019 consist of the following:

|                                    | Cost                  | Fair Value            |
|------------------------------------|-----------------------|-----------------------|
| Short Term Bond funds              | \$ 68,634,000         | \$ 68,299,000         |
| Intermediate Term Bond funds       | 29,288,000            | 29,585,000            |
| Inflation-Protected Bond funds     | 4,054,000             | 4,221,000             |
| High Yield Bond funds              | 15,528,000            | 15,375,000            |
| Emerging Markets Bond funds        | 6,640,000             | 6,803,000             |
| International Equities funds       | 6,950,000             | 8,884,000             |
| U.S. Equities funds                | 29,090,000            | 33,198,000            |
| Emerging Markets Equities funds    | 1,729,000             | 2,282,000             |
| Real Estate Investment Trust funds | 1,986,000             | 2,112,000             |
| Cash/Money Market funds            | 1,962,000             | 1,962,000             |
| Totals                             | <u>\$ 165,861,000</u> | <u>\$ 172,721,000</u> |

In 2019, the Association's Board of Directors implemented a 457(f) deferred compensation plan covering certain key employees. Payments from this plan are subject to vesting periods of three to four years. The Association has established investment accounts to manage funds credited to this plan on an annual basis. The investments remain assets of the Association until vesting periods for each participant have elapsed. The assets and liabilities related to the 457(f) Plan are included in the investments and in the accounts payable and accrued expenses in the accompanying consolidated balance sheet and represent the cumulative amount of contributions to the 457(f) Plan, as well as the accumulated earnings and losses since the 457(f) Plan's inception. The plan asset balance and associated liability as of December 31, 2019 were \$804,000.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

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, 2019.

Financial assets carried at fair value at December 31, 2019 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2019, 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 year ended December 31, 2019.

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 sheet.

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.

### NOTE 3 - FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS:

Furnishings, equipment, IT systems and leasehold improvements consist of the following:

|   | Estimated Life | 2019                 |
|---|----------------|----------------------|
| Furnishings and equipment                         | 7 to 10 Years  | \$ 12,942,000        |
| Software developed for internal use               | 3 to 10 Years  | 17,846,000           |
| Leasehold improvements                            | Term of Lease  | 11,802,000           |
|   |                | <u>42,590,000</u>    |
| Less accumulated depreciation<br>and amortization |                | <u>(21,081,000)</u>  |
| Totals  |                | <u>\$ 21,509,000</u> |

In 2019, the Association recognized a net loss of approximately \$21,000 relating to the disposal of certain assets with original costs totaling \$5,090,000.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$17,846,000 as of December 31, 2019. Related accumulated amortization as of December 31, 2019 amounted to \$8,948,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

Software development costs in progress, for various case management applications, websites, and web applications, totaling \$413,000, were placed into service in 2019 and are being amortized over a period of three to six years. Additionally, the Association had software development costs in progress, inclusive of related software licenses, totaling \$417,000 as of December 31, 2019. When placed in service these costs will be included in capital assets and amortized over an estimated life of three to five years.

The Association had construction-in-progress totaling approximately \$232,000 as of December 31, 2019. These costs are primarily associated with leasehold improvements for office leases, which will be placed in service in 2020. 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 \$336,000 in 2018 were placed in service in 2019.

### NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS:

In 2019, the Association amended the qualified defined benefit pension plan to facilitate termination and implemented the process to terminate the plan. The Association settled all liabilities via lump sum distributions and annuity contract purchases in 2019. The net cumulative adjustment resulting from the plan termination was a \$2,381,000 decrease to net assets without donor restrictions as of December 31, 2019 as unamortized actuarial losses in net assets in prior periods were accelerated and recorded as current period expense upon settlement of the pension obligation.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

Estimated future benefit payments in each of the five years subsequent to December 31, 2019 and in the aggregate for the five years beginning in 2025 are as follows:

| January 1,         | Healthcare Benefits |
|--------------------|---------------------|
| 2020               | \$ 285,000          |
| 2021               | 273,000             |
| 2022               | 298,000             |
| 2023               | 318,000             |
| 2024               | 334,000             |
| Years 2025 to 2029 | 2,001,000           |

For the healthcare benefit plan, the following tables set forth the plan's funded status and amounts recognized in the Association's financial statements at December 31, 2019:

|   | Healthcare Benefits |
|---|---------------------|
| Benefit obligation at December 31   | \$ 11,610,000       |
| Net unfunded status of the plan   | \$ (11,610,000)     |
| Amounts recognized in the consolidated balance sheets consists of the following:                    |                     |
| Current liabilities   | \$ 285,000          |
| Noncurrent liabilities  | 11,325,000          |
| Totals  | \$ 11,610,000       |
| Components of net periodic benefit cost and other amounts recognized in other changes in net assets |                     |
| Net periodic benefit cost:  |                     |
| Service Cost  | \$ 72,000           |
| Interest Cost   | 379,000             |
| Net Periodic benefit cost at December 31  | \$ 451,000          |
| Unrecognized net loss included in net assets  | \$ 3,106,000        |
| Employer's contribution   | 334,000             |
| Plan participants' contributions  | 74,000              |
| Net periodic benefit costs  | 451,000             |
| Benefit payments  | (408,000)           |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

|  | Healthcare Benefits  |
|--|--|
| Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of: |  |
| Net actuarial (gain)/loss  | \$ 2,299,000   |
| Weighted-average assumptions to determine the benefit obligation as of December 31:                                    |  |
| Discount rate  | 3.10%  |
| Rate of compensation increase  | N/A  |
|  | RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2019 for all years |
| Weighted-average assumptions to determine the net benefit cost for the year ended December 31:                         |  |
| Discount rate  | 4.20%  |
| Unrecognized actuarial (gain) or loss:   |  |
| Beginning of year  | \$ 807,000   |
| Actuarial (gain) or loss   | 2,299,000  |
| End of year  | \$ 3,106,000   |

The estimated net loss for the postretirement plan that will be amortized from net assets without donor restriction into net periodic benefit cost for the next fiscal year is \$196,000.

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2021. The rate was assumed to decrease gradually to 5.00% until 2025 and remain at that level thereafter.

### 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 2020 and 2030. 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 \$9,260,000 for the year ended December 31, 2019. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

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, 2019 and thereafter are as follows:

| Year Ending<br>December 31, | Amount               |
|-----------------------------|----------------------|
| 2020                        | \$ 8,351,000         |
| 2021                        | 7,825,000            |
| 2022                        | 7,877,000            |
| 2023                        | 7,743,000            |
| 2024                        | 7,139,000            |
| Thereafter                  | 17,348,000           |
| Total                       | <u>\$ 56,283,000</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, 2019, advance deposits collected totaled \$95,612,000. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheet.

Pursuant to various office space leases, the Association has letter of credit agreements totaling \$1,918,000 as of December 31, 2019. These agreements guarantee operating lease rental obligations and are secured by a portion of the investment portfolio. There were no payments drawn against these letters of credit by any of the beneficiaries during 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019

## NOTE 6 - AVAILABLE RESOURCES AND LIQUIDITY:

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments. Because the Association operates with a balanced budget that anticipates collecting sufficient revenue to cover general expenditures for the coming year, and because the Association's revenue sources are not generally cyclical in nature, liquidity needs have been determined to be approximately 60 days of cash operating expenses. Using the 2020 Operating Budget, desired liquidity for 2020 has been determined to be approximately \$16,756,000. Amounts in excess of these needs are invested in a highly liquid diversified portfolio of mutual funds and exchange traded funds (ETFs) following an asset allocation strategy included in the Association's investment policy statements.

The Association has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and accounts receivable. In addition, the Association's governing board has designated a portion of its unrestricted resources as an operating reserve fund to mitigate risks that may impact the Association's financial sustainability and to serve as a long term capital fund. The Board-designated fund was targeted at \$76,449,000 at December 31, 2019, with the President of the Association able to access up to an amount equal to 1% of the annual operating budget, or \$1,080,000 in 2020, for short term needs. Although not expected to be needed, the remaining balance of the operating reserve fund is invested for long-term appreciation and current income but remains available to be spent with approval from the Board or its Executive Committee.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of providing alternative dispute resolution services, elections, and education to be general expenditures. A portion of the Investments balance, equal to the amount collected in advance for unearned arbitrator and mediator compensation as reflected in Note 5 and the table below, is not included in the analysis. Those funds are expected to be available for payment to arbitrators and mediators as case hearings are completed, or refunded to parties to cases if unused, and are not available to meet current operating needs. Also excluded from the analysis are assets held by the AAA-ICDR Foundation, a separately incorporated 501(c)(3) entity whose financial results are included in the Association's consolidated financial statements. Though unrestricted, the assets of the AAA-ICDR Foundation are intended for use in sustaining its operations and awarding grants in support of its mission, and are therefore not available to meet general expenditures of the Association.

As of December 31, 2019, the following tables show the total financial assets held by the Association and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2019

### Financial assets at year-end

|   |                    |
|---|--------------------|
| Cash and cash equivalents – unrestricted  | \$ 23,115,000      |
| Restricted cash                           | 4,860,000          |
| Investments                               | 172,721,000        |
| Accounts receivable, net                  | 22,543,000         |
| Other receivables, net                    | 776,000            |
| <b>Total financial assets at year-end</b> | <b>224,015,000</b> |

### Less amounts not available to meet general expenditures

|  |                      |
|--|----------------------|
| Restricted cash  | (4,860,000)          |
| Cash held by AAA-ICDR Foundation   | (1,997,000)          |
| Investments related to deposits collected for panelist compensation  | (95,612,000)         |
| Investment assets securing letters of credit   | (2,740,000)          |
| AAA-ICDR Foundation investments  | (2,130,000)          |
| Board Designated Operating Reserve Fund, less 1% of annual operating budget available to be drawn by AAA President | (75,369,000)         |
| <b>Total Financial assets available to meet general expenditures</b>   | <b>\$ 41,307,000</b> |

### NOTE 7 - FUNCTIONAL EXPENSES:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses are allocated on the basis of estimates of time and effort.

As of December 31, 2019, the following table shows the total expenses of the Association by programs and management general and administrative expense:

|                                   | Total                 | Programs             | Management general and administrative |
|-----------------------------------|-----------------------|----------------------|---------------------------------------|
| Salaries/benefits                 | \$ 66,575,000         | \$ 62,778,000        | \$ 3,797,000                          |
| Facilities                        | 9,260,000             | 9,027,000            | 233,000                               |
| Office expenses                   | 3,212,500             | 3,099,000            | 113,500                               |
| Travel, conferences, and meetings | 2,303,000             | 1,940,000            | 363,000                               |
| Professional fees                 | 9,718,000             | 8,899,000            | 819,000                               |
| Information technology costs      | 2,901,000             | 2,743,000            | 158,000                               |
| Bad debt expense                  | 169,000               | 169,000              | –                                     |
| Depreciation/amortization         | 4,884,000             | 4,716,500            | 167,500                               |
| Direct program costs              | 4,866,500             | 4,866,500            | –                                     |
| Other operating expenses          | 1,826,000             | 1,396,000            | 430,000                               |
| <b>Total operating expenses</b>   | <b>\$ 105,715,000</b> | <b>\$ 99,634,000</b> | <b>\$ 6,081,000</b>                   |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019

NOTE 8 - RISKS AND UNCERTAINTIES:

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred, including mandates from federal, state and local authorities, leading to an overall decline in economic activity. The Association is not able to estimate the length or severity of this outbreak and the related financial impact. Management believes it has sufficient liquid assets to meet its operational needs. If the length of the outbreak and related effects on the Association's operations continues for an extended period of time, the Association may reduce certain expenditures and adjust its operations accordingly, including taking cost saving measures and utilizing board-designated operating reserves. The Association expects this matter to negatively impact the organization's financial position, results of operations, and cash flows. The aggregate effect of the financial impact and duration cannot be reasonably estimated at this time.



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# 2019 **Annual Report** & Financial Statements

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Advancing the future of alternative dispute resolution