AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION® | AAAMediation.org℠

A mission to improve transparency, efficiency and innovation

IN ALTERNATIVE DISPUTE RESOLUTION.

2018 ANNUAL REPORT

& FINANCIAL STATEMENTS

MAY 9, 2019 | NEW YORK, NY

American Arbitration Association®

International Centre for Dispute Resolution® | AAA Mediation.org℠

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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.

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 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.

PRESIDENT'S LETTER 2018

Dear Stakeholders,

Arbitral institutions oversee and shepherd the arbitration process, and both developed and developing countries seek to further establish and expand its use. Such institutions create uniformity of administration and arbitral decision-making and cultivate public confidence in the process. Some experts say there are as many as 200 international arbitration centers or organizations in the world today; more are forming every year. Many of these arbitral institutions have government backing or are supported by business and trade groups, or both.

The American Arbitration Association® (AAA®), however, is and has always been an independent entity–not intertwined with government, with business chambers, or with any users of its services.
A not-for-profit organization, the AAA was founded 93 years ago in New York City, subsequent to the development of three early and major arbitral institutions in Europe:

- The London Court of International Arbitration (predecessor organization), founded in 1892
- The Arbitration Institute of the Stockholm Chamber of Commerce, founded in 1917
- International Chamber of Commerce Court of Arbitration, founded in 1923

The AAA-ICDR® administers arbitrations in the United States and around the world. In 2018, parties from 99 countries participated in AAA-ICDR cases. The AAA is the largest arbitration institution in the world, which makes us keenly aware of our responsibility to the process, to the parties and to the public. The ever-evolving and court-tested AAA and ICDR Rules, refined with input from our users; the panel of arbitrators; the newest technology; and our expertise are deployed every day in an ongoing effort to make the arbitration process fair, useful and economical. It isn't easy. An array of forces pushes back, just as in court litigation. Ask any judge or any arbitrator–parties who want to delay a litigation or an arbitration often can, especially when both parties accept or promote delay.

That suggests that we in the arbitration community must rededicate ourselves to supporting and promoting the objectives and advantages of arbitration:

Fairness

It isn't worth addressing any other aspect of arbitration if people don't view the process as fair. Not only must it be fair in fact, it must also be presumed as fair in the often harsh light of public scrutiny. The arbitrators and administrators around the process have to be fair and presumed as fair. The parties and the advocates are not going to carry that fairness burden, so we have to do it and we have to be clear about the message we are delivering.

Accessibility

Arbitration has to be available to everyone, not so costly or time-consuming that it really isn't feasible to use it for most cases. Under AAA Rules, even those in financial difficulty can use our hardship provisions to seek a waiver or deferral of our administrative fees for their cases. Many AAA arbitrators continue to render significant public service every year on modest arbitrations.

For our Expedited and Fast Track arbitrations,

THE ARBITRATORS SERVE FOR LOW FIXED FEES TO HELP US KEEP ARBITRATION ACCESSIBLE FOR CASES WITH CLAIMS UNDER $100,000.

Based on a random sample of cases, we estimate that these "capped" arbitrator fees translate into an additional value of over $2,000,000 in expert, professional effort provided to these particular parties by AAA arbitrators in 2018.

Expertise

Some parties want the arbitrators to have significant expertise in the subject matter of a case, no matter how novel or complicated the issue in dispute. Others just want an arbitrator who is expert in the arbitration process and managing difficult advocates and cases. They also expect expert, professional administration by their arbitral institution of choice.

Privacy

Yes, privacy is back in style, both for individuals and for organizations. Some may insist that surrendering confidentiality is the only acceptable path to follow in arbitration, but many people and organizations value the privacy of their names and their proprietary information. That means that we have to walk a fine line and find ways to share some useful information in order to provide a degree of transparency about the process, all the while protecting the privacy of the users. We have achieved that balance through the publication of AAA employment and labor arbitration awards in redacted form. And in consumer and employment arbitrations conducted by the AAA in the United States, we publish various facts about those cases online, including the names of the companies, while protecting the names of the individual consumers and employees: **www.adr.org/casestats.**

Diversity

Very important to the legitimacy of the process is diversity of the arbitrators who decide the cases. Women and minorities need to be among the arbitrators who actually serve on cases as well as be represented in the pools of expert arbitrators an organization can offer the parties. In 2018, the AAA and its users saw an increase in the percentage of cases in which a woman or minority arbitrator was appointed—to 27%. AAA arbitrators are drawn from the senior ranks of professionals and have years of experience, as well as the respect of their peers. Our recruiting efforts for diverse panelists are no different. Each year we recruit qualified women and minority professionals for specific industry and legal areas where we have cases in order to provide real opportunities for selection/appointment. This gives these panelists a chance to serve in areas in which they are seen as experts. These recruitment efforts are important and ongoing.

Arbitration is fair, accessible, expert, private and diverse, but we can do more to emphasize its positive characteristics so that others–the naysayers in particular–can recognize its value in a contentious world. This doesn't preclude the need for additional positive institutional change as arbitration further matures. Reform to the process, however, should be accompanied by greater accentuation of the benefits that arbitration continues to offer. Spreading the news about how we're making arbitration better will always be just about as important as the process itself of making it better.

In 2018, the AAA and its users saw an increase in the percentage of cases in which

A WOMAN OR MINORITY ARBITRATOR WAS APPOINTED—TO 27%.

India Johnson

India Johnson
President & Chief Executive Officer

RAISING THE BAR

Our Commitment to ADR

One of our priorities is improving access to justice through ADR for those who otherwise might not have it. In support of this effort, the not-for-profit **AAA-ICDR Foundation®** continued its mission of funding projects and proposals that address vital needs in the U.S. and international community to expand the use and improve the process of ADR, increase access to ADR for those who cannot afford it, and share knowledge of conflict resolution across different cultures. In 2018, the Foundation awarded 19 grants totaling over $500,000 in funding. Grant recipients included the Divided Community Project at the Ohio University Moritz College of Law, the Association for Conflict Resolution (ACR) Elder Justice Initiative on Eldercaring Coordination, and the International Mediation Institute (IMI) Global Pound Conference North America Report.

The importance of the role that the AAA plays in **educating** the public about the value and benefits of ADR and furthering its use through the administration of time- and cost-saving alternative dispute resolution methodologies is deeply embedded in our DNA. In 1937, AAA then-President Lucius R. Eastman had this to say about the Association's focus on information dissemination through education and publications:

"When the American Arbitration Association was founded in 1926, it dedicated itself to the supreme task of advancing a science of arbitration. Although the theory and principles of arbitration had long been fixed,

In 2018, the Foundation awarded
19 GRANTS TOTALING OVER $500,000 IN FUNDING.

research and experimentation and the publication of their findings, so necessary to the establishment of any science, had been lacking. In pursuance of this task, the Association followed two courses: The organization, in systematic form, of the practice of arbitration which is set forth in its Code of Arbitration Practice and Procedure and other publications; and the systematic formulation of the knowledge of arbitration into a distinctive literature of its own."

Our **education services and publications** pay homage to this early vision and drive our not-for-profit mission by continuing to expand the breadth of ADR knowledge by maintaining a robust education and training website and through comprehensive in-person and online education programs and quality publications for parties, advocates, arbitrators and mediators, and AAA staff.

The AAA places great importance on the quality of its Panel of Arbitrators and Mediators. As we make clear on the AAA's website, parties need arbitrators and mediators who understand the intricacies, vulnerabilities, and variances of their cases and industries.

The AAA tailors its panels for these qualifications and creates new panels—such as Aerospace, Aviation, and National Security; Construction Mega Project; Cyber Security; and others—to meet the needs of the types of cases that are filed each year. Not only do AAA panelists have subject matter expertise, they are also required to meet annual Arbitrator Continuing Education (ACE) requirements. Clearly defined qualification criteria, an ongoing internal review process, further refined in 2018, as well as post-case evaluations by parties, ensure that the Roster of Arbitrators and Mediators meets the high performance expectations of those who engage AAA services.

Keeping pace with advancements in **technology and cybersecurity** is vitally important in today's global business environment. Making the case process faster, easier to initiate and navigate, and more secure for parties and panelists has been an ongoing priority of the AAA. In 2018, we continued to improve our web presence and online dispute management capabilities with the launch of updated versions of AAA Mediation.org℠, Panelist eCenter® and AAA WebFile®. We also launched a new Online Settlement Tool and enhanced the AAA's proprietary case management system, PRISM, to facilitate expedited on-boarding of mass claim caseloads. Minor but impactful customer-focused improvements included streamlining AAA statement and invoice content and formatting, and the launch of an easy-to-use credit card payment widget. We also continued to make sizeable investments in cybersecurity defenses and Business Continuity/Disaster Recovery capabilities.

SUCCESS IN ADR

is not necessarily measured in terms of winning or losing a case.

It can, and should, be quantified by relevant factors such as: positive case outcomes issuing from mutually satisfactory settlements in mediation, business relationships that are not sundered in the wake of conflict, competent case management at both the administrative and procedural levels, and experienced and professional arbitrators and mediators who are dedicated to providing an expeditious and cost-effective process. Our efforts, now and in the future, are driven forward with all of these crucial elements in mind.

DIVISIONS

Supporting our efforts to provide effective and efficient alternative dispute resolution for the full spectrum of disputes, there were noteworthy accomplishments by each of our Divisions/Departments during the past year.

Commercial Division case filings increased 5% in 2018; cases with claim amounts of at least $500,000 increased 14%. Conferences such as the 5th Biennial Healthcare Dispute Resolution Innovation and Strategy Conference, and Arbitrating Domestic and International Aerospace, Aviation and National Security Disputes, were well attended. The Division also launched an Alternative Fee Arrangements for Arbitrators option for business-to-business (B2B) arbitrations, bringing additional cost savings, transparency and predictability to the arbitration process.

Construction Division case filings in all claim ranges continued upward in 2018 with an overall increase of 9% over filings in the prior year. Education and networking opportunities were the order of the day at the AAA's 2018 Construction Conference, held in Santa Monica, CA, which was attended by 130 construction attorneys and professionals. The Home Construction Rules were revised in 2018 and incorporated recommendations by a diverse group that included homeowner and builder representatives.

The **Labor, Elections, Employment and Consumer Division** continued to pursue initiatives that meet the needs of the parties. Mediation continues to be a viable alternative option for employment cases, as 80.2% of employment arbitrations are resolved prior to the final award. In 2018, only 57 employment cases proceeded before a three-person panel. On the labor side, customized on-site training for labor advocates has been a new focus of our educational service offerings.

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Also, a new Workplace Investigations Panel was created for parties with such needs.

AAA elections services continued to expand. In 2018, the **Elections Department** issued nearly 1.6 million ballots to union members voting in elections nationwide and saw a 75% increase from 2017 in the usage of online and touchscreen voting as these technologies continued to gain acceptance among labor unions.

To promote efficiency in managing a high-volume caseload, the **Minnesota No-Fault** office launched an online scheduling system to streamline the process for users as well as the AAA. Use of the online scheduling system was made mandatory by order of the Minnesota Supreme Court.

The **Consumer Group** administered more than 5,000 cases in 2018. Numerous cases issued from the North Carolina Disaster Mediation Program, administered on behalf of the North Carolina Department of Insurance, which enables homeowners in counties affected by hurricanes to mediate with their insurance carriers in order to bring speedy resolution to claims arising from wind damage to their homes.

The AAA New York State Insurance Division (NYSI) administers the no-fault automobile insurance and Supplemental Underinsured/Uninsured Motorists (SUM) programs on behalf of the NYS Department of Financial Services (DFS). The program experienced another year of solid growth in 2018 continuing the upward trend in filings. No-Fault filings increased 5% over 2017 to set a new record at 304,620. The number of SUM filings also increased by 9% over 2017 to close the year with 2,758 filings. In continuing to advance our shared mission of providing effective, efficient and economical dispute resolution, our experienced conciliation staff assisted in facilitating over 130,000 resolutions in 2018. In total, 42% of cases were resolved in the conciliation period.

We also continued to make advances in the efficiency of our scheduling process. Working with our customer base, we were able to move forward key initiatives like Fast Track Hearings, which enabled us to increase our scheduling capacity by adding more hearings to the calendar.

Cases filed with the **International Centre for Dispute Resolution® (ICDR®)** reflected a significant increase in the value of claims and counterclaims. The total amount of all such claims was $8.2 billion, representing a 17% increase over 2017. Case filings remained among the highest of all international arbitral institutions, with 993 new cases filed in 2018. Educational and other initiatives took place in key industries for the ICDR that included construction, technology, energy, and pharmaceuticals.

In 2018, **AAA Mediation.org℠** launched a national pro bono mediation initiative in conjunction with the ABA's Mediation Week, in which participating AAA regional offices provided pro bono mediation of select consumer and business disputes. AAA staff at regional case management centers received training on how to more effectively manage pro bono and consumer mediation caseloads and to provide them with additional skills to better handle various conflict management tools and techniques. AAA Mediation.org partnered with a major university in Southern California to produce live public television interview segments on arbitration and mediation as part of our educational mission, and also taped for public airing an episode on mediation in the U.S. for China T.V.

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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, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, the Association adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively. Our opinion is not modified with respect to this matter.

CohnReznick LLP

New York, New York
May 1, 2019

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CASH AND CASH EQUIVALENTS	$ 10,304,000	$ 10,727,000
RESTRICTED CASH	4,519,000	1,752,000
INVESTMENTS - At Fair Value	149,785,000	140,823,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of $520,000 in 2018 and $776,000 in 2017	19,492,000	19,857,000
OTHER RECEIVABLES, Less allowances for uncollectible accounts of $17,000 in 2018 and $35,000 in 2017	1,159,000	460,000
PREPAID EXPENSES	3,349,000	3,086,000
INTERNAL-USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	749,000	302,000
FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS - Net	21,972,000	20,465,000
TOTAL ASSETS	$ 211,329,000	$ 197,472,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 91,485,000	$ 84,301,000
Accrued postretirement medical costs	9,195,000	10,499,000
Accrued pension liability	3,502,000	1,839,000
Agency fund	4,519,000	1,752,000
Deferred rent	5,625,000	5,169,000
Deferred revenue	9,201,000	9,224,000
Total Liabilities	$ 123,527,000	$ 112,784,000
Commitments and Contingencies		
NET ASSETS:		
Without donor restrictions:		
Undesignated	14,985,000	16,422,000
Board Designated	72,817,000	68,266,000
Total without donor restrictions	87,802,000	84,688,000
TOTAL LIABILITIES AND NET ASSETS	$ 211,329,000	$ 197,472,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Administration fees earned:		
Commercial	$ 60,003,000	$ 54,671,000
State insurance	31,633,000	27,362,000
Labor	4,529,000	4,333,000
Elections	3,882,000	3,549,000
Totals	100,047,000	89,915,000
Publications and education	1,771,000	1,925,000
Other operating income	1,725,000	1,180,000
Totals	103,543,000	93,020,000
OPERATING EXPENSES		
Administration of tribunals	84,982,000	76,584,000
Elections	3,900,000	3,564,000
Publications and education	1,277,000	935,000
General and administration	4,981,000	4,830,000
Totals	95,140,000	85,913,000
Net Operating Income	8,403,000	7,107,000
NON OPERATING INCOME AND EXPENSES		
Investment return (loss), net	(6,034,000)	7,510,000
Loss on disposal of assets	(10,000)	(10,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE CHANGES IN NET ASSETS	2,359,000	14,607,000
Pension liability adjustment	(694,000)	721,000
Postretirement medical obligation adjustment	1,449,000	(816,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	3,114,000	14,512,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	84,688,000	70,176,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	$ 87,802,000	$ 84,688,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,114,000	$ 14,512,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,162,000	3,945,000
Bad debt and change in provisions for uncollectible accounts	1,302,000	568,000
Deferred rent	456,000	657,000
Net realized and unrealized (gains)/losses on investments	8,943,000	(4,750,000)
Loss on disposal of assets	10,000	10,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(937,000)	(935,000)
(Increase)/Decrease in other receivables	(699,000)	101,000
Increase in prepaid expenses	(263,000)	(213,000)
Increase in accounts payable and accrued expenses	7,184,000	7,103,000
Increase in Agency Fund	2,767,000	1,752,000
(Decrease)/Increase in accrued postretirement medical costs	(1,304,000)	926,000
Increase/(Decrease) in accrued pension liability	1,663,000	(5,625,000)
(Decrease)/Increase in deferred revenue	(23,000)	1,224,000
Net cash provided by operating activities	26,375,000	19,275,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(5,377,000)	(4,093,000)
Proceeds from sale of investments	44,399,000	17,010,000
Purchase of investments	(62,304,000)	(32,225,000)
Internal use software development and construction in progress	(749,000)	(302,000)
Net cash used in investing activities	(24,031,000)	(19,610,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to restricted cash	(2,977,000)	(1,926,000)
Proceeds from restricted cash	210,000	174,000
Net cash used in financing activities	(2,767,000)	(1,752,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(423,000)	(2,087,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,727,000	12,814,000
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 10,304,000	$ 10,727,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 pronouncement:

On August 18, 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly, and has applied the standard, retrospectively, to all periods presented.

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 a provision for deferred revenue in 2018 and 2017 of $227,000 and $158,000, 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 $7,582,000 and $7,405,000 as of December 31, 2018 and 2017, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

Registration fees and other payments for educational programs and other services may be payable in advance prior to an education program event or delivery of services. Deferred education and services revenue of $152,000 and $164,000 as of December 31, 2018 and 2017, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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. Payments received in advance of the start of the assessment year totaling $417,000 and $703,000 as of December 31, 2018 and 2017, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

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 $823,000 and $794,000 as of December 31, 2018 and 2017, 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. Cash and cash equivalents were $10,304,000 and $10,727,000 as of December 31, 2018 and 2017, respectively.

Restricted cash:

Restricted cash represent 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 balances as of December 31, 2018 and 2017 were $4,519,000 and $1,752,000, respectively.

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 $27,321,000 and $21,533,000 as of December 31, 2018 and 2017, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 statements 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 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, 2018 and 2017. The Association's Federal and state income tax returns prior to fiscal year 2015 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 years ended December 31, 2018 and 2017.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

An operating reserve fund designated by the Board totaled $72,817,000 and $68,266,000 as of December 31, 2018 and 2017, respectively. 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 both 2018 and 2017.

Subsequent events:

The Association has evaluated subsequent events through May 1, 2019, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

NOTE 2 - INVESTMENTS:

Investments at December 31, 2018 and 2017 consist of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	$ 56,561,000	$ 55,394,000	$ 45,668,000	$ 44,948,000
Intermediate Term Bond funds	24,364,000	23,544,000	24,014,000	23,738,000
Inflation-Protected Bond funds	3,727,000	3,686,000	3,073,000	3,184,000
Long Term Bond funds	2,744,000	2,564,000	2,848,000	2,867,000
High Yield Bond funds	16,808,000	15,843,000	13,434,000	13,379,000
Emerging Markets Bond funds	6,202,000	5,764,000	6,491,000	6,699,000
International Equities funds	6,393,000	7,017,000	5,743,000	7,819,000
U.S. Equities funds	30,813,000	31,059,000	26,772,000	31,318,000
Emerging Markets Equities funds	1,685,000	1,850,000	1,421,000	2,010,000
Real Estate Investment Trust funds	1,709,000	1,559,000	1,534,000	1,527,000
Cash/Money Market funds	1,505,000	1,505,000	3,334,000	3,334,000
Totals	$ 152,511,000	$ 149,785,000	$ 134,332,000	$ 140,823,000

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.

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, 2018 and 2017.

Financial assets carried at fair value at December 31, 2018 and 2017 are classified as Level 1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2018 and 2017, 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, 2018 and 2017.

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, 2018 AND 2017

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

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

	Estimated Life	2018	2017
Furnishings and equipment	7 to 10 years	$ 13,333,000	$ 10,345,000
Software developed for internal use	3 to 10 Years	18,549,000	16,952,000
Leasehold improvements	Term of Lease	11,356,000	11,581,000
		43,238,000	38,878,000
Less accumulated depreciation and amortization		(21,266,000)	(18,413,000)
Totals		$ 21,972,000	$ 20,465,000

In 2018 and 2017, the Association recognized a net loss of approximately $10,000 in each year relating to the disposal of certain assets with original costs totaling $1,319,000 and $8,499,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of $18,549,000 and $16,952,000 as of December 31, 2018 and 2017, respectively. Related accumulated amortization as of December 31, 2018 and 2017 was $9,681,000 and $8,012,000, respectively.

Software development costs in progress, for various case management applications, websites, and web applications, totaling $84,000, were placed into service in 2018 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 $413,000 as of December 31, 2018. 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 $336,000 as of December 31, 2018. These costs are primarily associated with leasehold improvements for office leases, which will be placed in service in 2019. 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 $218,000 in 2017 were placed in service in 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017 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, 2019 are zero. In 2018, the Association amended the plan to facilitate and implement the process to terminate the plan. The Association expects to settle all liabilities via lump sum distributions and annuity contract purchases in 2019, and anticipates a contribution of approximately $5.75 million will be necessary to fund the termination of the liability in 2019. For the financial reporting that follows, actuarial calculations do not reflect any impact for the upcoming plan termination, which will be accounted for in 2019 when assets are distributed.

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, 2018 and in the aggregate for the five years beginning in 2024 are as follows:

January 1,	Pension Benefits	Healthcare Benefits
2019	$ 3,173,000	$ 334,000
2020	2,843,000	316,000
2021	2,602,000	346,000
2022	2,737,000	333,000
2023	2,559,000	359,000
Years 2024 to 2028	12,182,000	2,077,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	Pension Benefits		Healthcare Benefits	
	2018	2017	2018	2017
Benefit obligation at December 31	$ 39,308,000	$ 42,304,000	$ 9,195,000	$ 10,499,000
Fair value of plan assets at December 31	35,806,000	40,465,000	–	–
Net unfunded status of the plan	$ (3,502,000)	$ (1,839,000)	$ (9,195,000)	$ (10,499,000)
Amounts recognized in the consolidated balance sheets consists of the following:				
Current liabilities	$ –	$ –	$ 334,000	$ 472,000
Noncurrent liabilities	3,502,000	1,839,000	8,861,000	10,027,000
Totals	$ 3,502,000	$ 1,839,000	$ 9,195,000	$ 10,499,000
Components of net periodic benefit cost and other amounts recognized in other changes in net assets				
Net periodic benefit cost:				
Service Cost	$ –	$ –	$ 143,000	$ 145,000
Interest Cost	1,416,000	1,587,000	362,000	375,000
Expected return on plan assets	(1,757,000)	(2,455,000)	–	–
Amortization of prior service cost	(2,000)	(2,000)	–	–
Amortization of net actuarial loss	1,313,000	1,366,000	112,000	42,000
Net Periodic benefit cost at December 31	$ 970,000	$ 496,000	$ 617,000	$ 562,000
Unrecognized net loss included in net assets	$ 17,379,000	$ 16,685,000	$ 807,000	$ 2,256,000
Employer's contribution	–	5,400,000	472,000	453,000
Plan participants' contributions	–	–	74,000	53,000
Net periodic benefit costs	970,000	496,000	617,000	562,000
Benefit payments	(3,010,000)	(3,066,000)	(546,000)	(505,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Net actuarial (gain)/loss	$ 694,000	$ (721,000)	$ (1,449,000)	$ 816,000
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	4.00%	3.46%	4.20%	3.52%
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-2018 for all years		RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2018 for all years	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

	Pension Benefits		Healthcare Benefits	
	2018	2017	2018	2017
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	3.46%	3.95%	4.20%	4.00%
Expected return on plan assets	4.50%	7.50%	N/A	N/A
Unrecognized actuarial (gain) or loss:				
Beginning of year	$ 16,685,000	$ 17,406,000	$ 2,256,000	$ 1,439,000
Actual return on plan assets	1,649,000	(4,080,000)	–	–
Expected return on plan assets	1,757,000	2,455,000	–	–
Actuarial (gain) or loss	(2,674,000)	2,268,000	(1,337,000)	859,000
Prior Service Costs	1,273,000	–	–	–
Amortization of net loss	(1,313,000)	(1,366,000)	(112,000)	(42,000)
Amortization of prior service cost	2,000	2,000	–	–
End of year	$ 17,379,000	$ 16,685,000	$ 807,000	$ 2,256,000

The estimated net loss for the defined benefit pension plan that will be amortized from net assets without donor restriction into net periodic benefit cost for the next fiscal year is $1,334,000. The estimated prior service cost for the defined benefit pension plan that will be amortized from net assets without donor restriction into net periodic benefit cost for the next fiscal year is $137,000. There were no estimated net losses for the postretirement plan that will be amortized from changes in net assets without donor restriction into net periodic benefit cost over the next fiscal year.

For measurement purposes, an 8.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020. The rate was assumed to decrease gradually to 5.00% until 2026 and remain at that level thereafter.

The target allocations of pension assets are outlined below:

	Target Allocation	Percentage of Plan Assets at December 31,	
Plan assets:		2018	2017
Equity securities	0%	0%	0%
Fixed income	100%	100%	100%
Totals		100%	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

The overall objective of these allocations is to have plan asset returns match plan liabilities, and reduce the volatility of the Plan's unrecognized loss. The expected long-term rate of return on assets is 4.5%. 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 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.

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

2018 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	$ 35,806,000	–	–	$ 35,806,000
Totals	$ 35,806,000	–	–	$ 35,806,000

2017 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	$ 40,465,000	–	–	$ 40,465,000
Totals	$ 40,465,000	–	–	$ 40,465,000

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017.

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, 2018 AND 2017

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 $9,349,000 and $8,998,000, for the years ended December 31, 2018 and 2017, respectively. In addition, the Association leases certain 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, 2018 and thereafter are as follows:

Year Ending December 31,		Amount
2019	$	8,373,000
2020		8,053,000
2021		7,705,000
2022		7,769,000
2023		7,651,000
Thereafter		24,398,000
Total	$	63,949,000

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, 2018 and 2017, advance deposits collected totaled $80,500,000 and $73,611,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Pursuant to various office space leases, the Association has letter of credit agreements totaling $1,918,000 and $2,632,000 as of December 31, 2018 and 2017, respectively. 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 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 2019 Operating Budget, desired liquidity for 2019 has been determined to be approximately $16,212,000. 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 $72,817,000 at December 31, 2018, with the President of the Association able to access up to an amount equal to 1% of the annual operating budget, or $1,022,000 in 2019, 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 educational programs 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, 2018, 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, 2018 AND 2017

Financial assets at year-end	
Cash and cash equivalents – unrestricted	$ 10,304,000
Restricted Cash	4,519,000
Investments	149,785,000
Accounts receivable, net	19,492,000
Other receivables, net	1,159,000
Total financial assets at year-end	185,259,000
Less amounts not available to meet general expenditures	
Restricted Cash	(4,519,000)
Cash held by AAA-ICDR Foundation	(1,980,000)
Investments related to deposits collected for panelist compensation	(80,500,000)
Investment assets securing letters of credit	(2,877,000)
AAA-ICDR Foundation investments	(746,000)
Board Designated Operating Reserve Fund, less 1% of annual operating budget available to be drawn by AAA President	(71,795,000)
Total Financial assets available to meet general expenditures	$ 22,842,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018, 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	$ 59,123,000	$ 55,884,000	$ 3,239,000
Occupancy	9,349,000	9,113,000	236,000
Office expenses	2,981,000	2,889,000	92,000
Travel, conferences, and meetings	1,953,000	1,613,000	340,000
Professional fees	7,874,000	7,278,000	596,000
Information technology costs	2,892,000	2,787,000	105,000
Bad debt expense	1,302,000	1,302,000	–
Depreciation/amortization	4,162,000	4,046,000	116,000
Election expense	2,651,000	2,651,000	–
Education and publication expense	335,000	335,000	–
Grant expense	567,000	567,000	–
Other operating expenses	1,951,000	1,694,000	257,000
Total operating expenses	$ 95,140,000	$ 90,159,000	$ 4,981,000

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2018 ANNUAL REPORT
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