American Arbitration Association® | AAA-ICDR® Council

TRUSTED IN TIMES OF CRISIS

2020 ANNUAL REPORT
& FINANCIAL STATEMENTS

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

Dear Stakeholders,

The global COVID-19 pandemic's impact on courts and on arbitrations was severe, with a never-experienced mass cancellation and postponement of trials and hearings. Many courts even suspended filings of new cases or claims. If hearings cannot be scheduled and held, then what impetus is there for settlement? If parties cannot settle or attend hearings, then how do they resolve their disputes? Decades of administration experience guided our response to these questions, which went to the very heart of the AAA-ICDR's mission.

In the pandemic, the AAA-ICDR's first concern has been the safety of our staff, people we serve and people who work with us to serve others.

In the pandemic, the AAA-ICDR's first concern has been the safety of our staff, people we serve and people who work with us to serve others. In January, February and early March of 2020, we began supplying hand sanitizers, cleaning hearing rooms at night and holding distanced meetings. Then, over a matter of weeks, our Information Services (IS) team raced to set up our staff, hundreds of people, to work from home—though some continued in-person MBO, or "minimal business operations," to support their colleagues.

Service had to continue. Existing disputes do not just disappear because hearings are cancelled, and new disputes do not stop happening because there may be no place to go with them. Our business continuity planning (BCP) process, honed over years, proved a solid foundation for meeting those needs in 2020.

We always thought in terms of a localized crisis or disaster—a storm, a fire, a cybersecurity event. A global virus and pandemic conditions for a year or more was a new kind of crisis that called for broad, holistic thinking about delivery of services: How could we move cases forward, move education and engagement forward? What do stakeholders need? How can we make that not only possible for them, but as easy as possible?

For new and existing cases, we enhanced and promoted everything that could be done online so lawyers, parties and arbitrators could keep moving forward: filing cases and paying bills; selecting arbitrators and managing case documents; writing, reviewing and signing awards; direct deposits of arbitrator compensation—and holding remote meetings and hearings.

We formed a large team of experts internally who could run virtual proceedings, helping many arbitrators and parties to overcome their own technical difficulties.

Looking ahead, online tools for case management and finances, and for hearings, will continue to be useful. We will also be able to hold in-person hearings under prescribed conditions. For some parties, that will be the only way they see the process as fair and just.

The AAA-ICDR also works to address conflict that transcends physical or virtual hearing rooms and resonates across society. In 2020, deaths of unarmed Black victims related to police actions, such as those of George Floyd, Breonna Taylor and Rayshard Brooks, or at the hands of civilians in the case of Ahmaud Arbery, intensified attention on racial justice and policing reform in the U.S. and much of the world.

The AAA-ICDR provided support to the Active Bystandership for Law Enforcement (ABLE) Project at Georgetown Law and to Effective Law Enforcement for All (ELE4A), an organization advancing safe, effective law enforcement for police and the communities they serve. We also formed a Diversity & Inclusion Committee for our AAA-ICDR Council, and we required panelists to complete an educational program on bias in arbitration and mediation. Internally, hundreds of staff members participated in small-group discussions on the impact of race on their daily lives. I or another senior leader at the Association joined each conversation. The "I.D.E.A.S." employee resource group that formed out of those talks will continue promoting Inclusion, Diversity, Equality, Acceptance and Support. Even with the challenges of 2020, society, and the economy, continued to depend on and benefit from ADR. With transactions come disputes, and a portion of those disputes end up needing some sort of outside due process and decision-making.

Out-of-court dispute resolution, or ADR as we like to call it, has to be available and accessible. The courts simply cannot handle all the disputes and claims people and businesses generate each year.

Out-of-court dispute resolution, or ADR as we like to call it, has to be available and accessible. The courts simply cannot handle all the disputes and claims people and businesses generate each year. The AAA-ICDR can relieve burdens on courts and on society by doing what we do well—and as humanely and efficiently as possible. Resolving disputes in fair and efficient ways so people and organizations move on and get back to the highest, best use of their time and talents is important, and it is our job.

We thank our staff, our panelists, our Council members and our Board members for continued support of the AAA's mission.

India Johnson

India Johnson,
President & Chief Executive Officer

Divisional Reports

Introduction

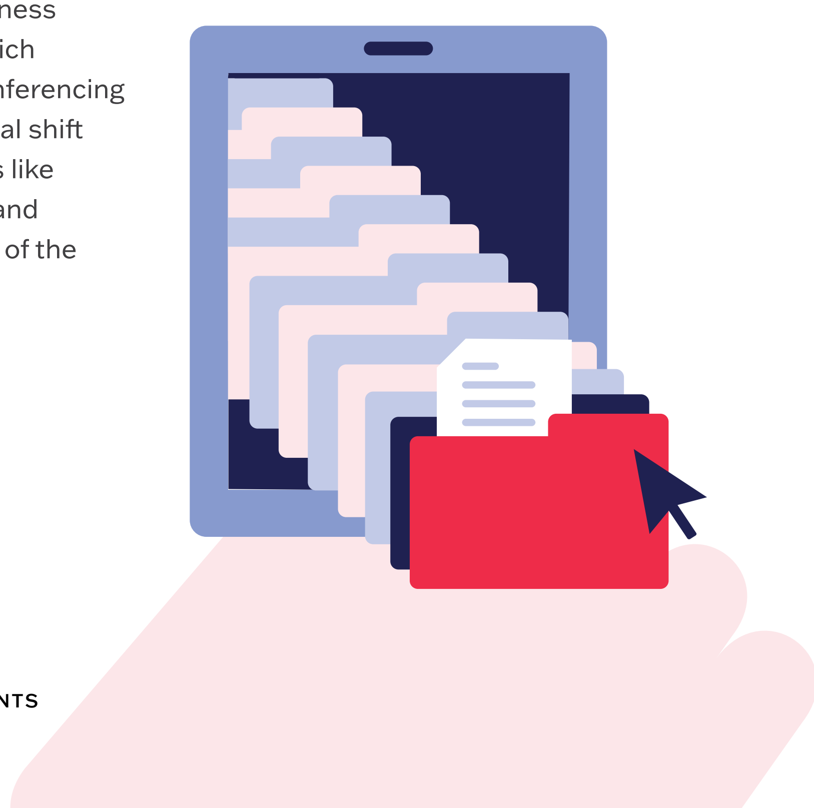
In February, the Association marked six million cases administered since its founding in 1926—more than any other ADR provider. It relied on that accumulated experience throughout 2020 while also collecting new insights from thousands of active cases proceeding in a changed environment. Under the best of circumstances, a dispute can be an emotional experience for parties and advocates. As 2020 unfolded, the AAA-ICDR's administrators served as a calming force, with every case an opportunity to demonstrate that time-tested rules and procedures worked, and worked well, in virtual hearing spaces.

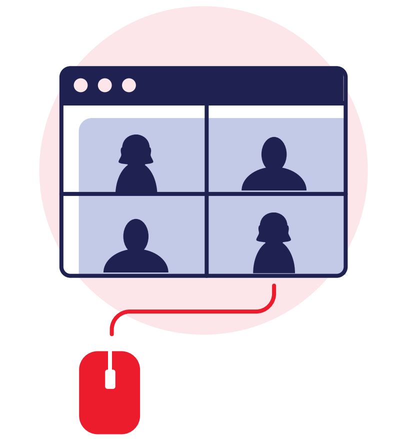
Remote participation in arbitration hearings is not a new concept. For years, the AAA-ICDR has facilitated the delivery of remote witness testimony to hearing rooms, many of which already offered state-of-the-art videoconferencing technology. However, 2020 marked a tidal shift toward all-virtual proceedings. Concerns like video connectivity, operating webcams and microphones, and ensuring the integrity of the proceedings came to the fore.

Arbitration is a matter of contract. Parties retain the ability, even after a dispute has arisen or an arbitration has commenced, to adjust their process in the interests of fairness, efficiency and cost-effectiveness. In 2020, the challenges were devising viable alternatives to aspects of the process rendered unworkable by the pandemic, securing agreement of the parties to adopt those changes, and shepherding parties through the process.

Six million cases administered

since its founding in 1926



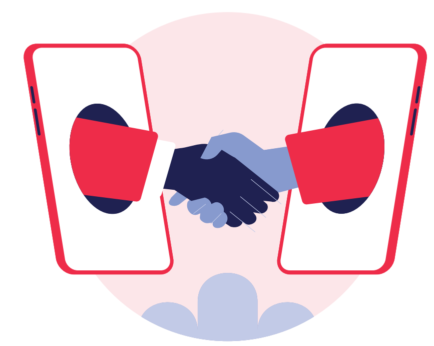


Zoom Champions

A team of dozens from the AAA-ICDR underwent extensive technical training and then optimized the customer experience with recommendations for default software settings, security safeguards and streamlining the sign-in process. They also served as resources to colleagues and to case participants on live hearings. Parties' response to the AAA-ICDR's assistance on virtual hearings was so positive that a new Virtual Hearing Managed Services offering rolled out in 2020 to benefit parties on cases not otherwise being administered by the Association.

Setting Standards From Experience

Based on all that case managers learned early in the pandemic, the AAA-ICDR devised gold-standard best practices for virtual hearings and shared them in a constant stream of white papers, virtual hearing guides that included a 20-page Panelist Resource Guide for Virtual Hearings, a model order setting ground rules for virtual proceedings, and a dedicated public portal for these and other materials on www.adr.org.



Active Outreach

In 2020, Association executives also made the most of the online-only environment to participate in conferences and produce educational programming that brought together large, diverse groups of participants from across the U.S. and around the world.

Administering thousands of virtual hearings during 2020 yielded new insights that made dispute resolution possible under pandemic conditions and will affect the course of ADR into the future.

Commercial Division

Divisional Report

Restrictions on in-person hearings did not diminish commercial parties' enthusiasm for ADR in 2020.

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The **Commercial Division** administered more than 1,100 virtual case-related events, including over 800 arbitration hearing days and 115 mediation sessions. The Division also launched programs for COVID-19–related insurance coverage claims and bankruptcy mediations and administered numerous arbitrations that arose directly from the pandemic. Filings increased 2% overall, and claims of at least $1 million increased 4%.

Large healthcare filings grew 21%, and the technology and financial services caseloads each saw a number of billion-dollar claims.

21% **Growth in large healthcare filings**

The aviation, aerospace and national defense, and transportation caseloads also experienced significant growth. Total claims and counterclaims on B2B disputes grew $3.2 billion, and one-third of arbitrators appointed to hear those disputes were diverse, up from 30% in 2019 and 25% in 2017.

The Division's virtual outreach efforts included programs on topics ranging from cybersecurity to life sciences, financial services, insurance, and more than 30 training programs on best practices for conducting virtual hearings.

Committees of the Council

The **Large Complex Case Committee** of the AAA-ICDR Council met regularly and completed an in-depth comparison of the practices of different arbitral institutions on disclosure of third-party funding arrangements. The Committee also initiated projects on discovery of electronically stored information, as well as interim and partial final arbitration awards.

The **Healthcare ADR Committee** of the AAA-ICDR Council revised the AAA Healthcare Payor Provider Arbitration Rules and Mediation Procedures in collaboration with insurers and healthcare systems to promote efficiency (through consolidation of multiple disputes, limits on depositions and different tracks for resolution keyed to case complexity). The Life Sciences Subcommittee also produced three webinars.

Arbitrator Committee

In July, the Arbitrator Committee of the AAA-ICDR Council published a guide detailing eight factors for case participants to consider in resuming postponed proceedings, including applicable law and prejudice to parties. The Committee also considered revisions to the Report of Preliminary Hearing and Scheduling Order and finalized a peer survey for those who have served on three-arbitrator panels. Members recommended that the Association periodically update panelists on recent developments in arbitration law and engaged in continued dialogue with their colleagues on the Large Complex Case Committee.

Construction Division

Divisional Report

As construction and infrastructure projects worldwide adjusted to pandemic-related restrictions and, in some places, shutdowns, the AAA-ICDR remained the industry's ADR provider of choice. In 2020, 828 construction arbitration hearing days and 288 mediation sessions took place virtually across cases representing $1.6 billion in claims and counterclaims.

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Construction Division filings were down slightly in 2020, but those involving claims of at least $1 million once again saw double-digit growth. On this caseload, 18% of panelists identified as diverse, an increase from 17% in 2019 and 11% in 2015.

The Division's thought leadership moved fully online, with a multipart webinar series that drew almost 600 attendees. The AAA-ICDR also participated in virtual events—the National Society of Professional Engineers' Virtual 2020 Professional Engineers Conference, the Women in Construction Conference and the Construction Institute 2020 AEC Leadership Virtual Conference—in addition to widespread outreach to law firms, bar associations and other organizations.

Committee of the Council

The **National Construction Dispute Resolution Committee (NCDRC)**, a Committee of the AAA-ICDR Council, focused on two projects in 2020. First, the AAA Discovery Best Practices for Construction Arbitration, with input from advocates, arbitrators and construction industry professionals, presents strategies for more efficient pre-hearing exchanges of information. Second, through a new NCDRC Mentorship Program, more seasoned panelists share insights with their incoming colleagues, particularly those from diverse backgrounds or those who have not practiced law.

Labor, Elections, Employment and Consumer Division

Divisional Report

It was a year of process innovation for the **Labor, Elections, Employment and Consumer Division.** Labor filings fell in 2020, by 17% overall, and the department administered 691 case-related events. Revisions to the AAA Labor Documents Only Procedures introduced flat-fee compensation for arbitrators and a shortened timeline to award. Multiemployer Pension Plan Rules for Withdrawal Liability Disputes were revised. The new AAA Labor File & Hold Fee Schedule gives parties the option to postpone payment of administrative fees for up to 60 days to encourage settlement, and webinars examined grievance processing and labor advocacy. The AAA-ICDR was a sponsor of LERA's 72nd Annual Meeting, with Labor executives moderating a panel on ethical considerations for virtual wrongful termination hearings.

The 23,652 Employment case filings in 2020 included 3,343 single case filings and 20,309 multiple case filings, and the team dedicated to serving this caseload grew 17%. A new "global mediation" program allows those involved in large, multiparty employment disputes to pay a flat filing fee regardless of the total number of cases, with common issues consolidated for resolution. A fact sheet on Employment Discovery Protocols, published in 2020, guides parties in framing issues at the outset to encourage early exchange of information. State-specific roundtable discussions familiarized advocates with the virtual hearing process, and the AAA-ICDR administered 1,105 virtual employment events through year-end. Across Labor and Employment caseloads, diversity of new panelists increased 20%, with 54% identifying as "diverse."

Diversity of new panelists increased

20%

Notwithstanding the physical nature of ballots and the tallying process, the Elections Department adapted quickly to pandemic conditions, even stepping in to support ballot suppliers—paper mills, envelope converters and mailing houses—that were suddenly operating under a patchwork of new rules and restrictions. To meet the federal observability requirements, the Department also pivoted to live-streaming vote counts.

Committee of the Council

In 2020, the **National Labor/Management Committee** of the AAA-ICDR Council convened regularly to monitor pandemic-related caseload trends, to discuss and share recommendations for the virtual hearing process, to plan advocacy trainings for the labor marketplace, and to examine virtual election administration (which is likely to continue into the future).

Consumer Caseload Report

In 2020, the Consumer Group managed 4,590 single case filings and 63,747 multiple case filings—68,337 in all. Over the course of the year, they administered 287 virtual case-related events and advised on logistics for large multiple case filings, and usage of the Consumer Online Settlement Tool more than tripled during the second half of the year.

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To meet increased demand, the Group added over 40 panelists, and an ad hoc team in the AAA-ICDR's Somerset, New Jersey office, composed of Labor staff, showed versatility in supporting their Consumer colleagues. Revised Consumer Arbitration Rules, effective November 1, 2020, introduce filing and mediation fees for multiple case filings.

The team handling filings by pro se parties also restructured and expanded in 2020, and the Minnesota No-Fault team administered more than 550 virtual hearings.

New Hearing Format, New Efficiencies

Managing hundreds of simultaneous demands for arbitration against a single employer is no small task. Starting in 2018, but mostly in 2019, nearly 400 workers filed demands against their former employer for arbitration administered by the AAA-ICDR. Claimants were eager for resolution but, at seven to 14 hearing days per case, the schedule would be both lengthy and dense with overlapping proceedings.

That was pre-pandemic. Once in-person hearings became untenable, the challenges only mounted. The AAA-ICDR and the parties devised a strategy balancing claimants' desire for resolution against the logistical concerns of the employer. The flexibility of the Employment Arbitration Rules made that possible.

It may be hard to envision an advocate presenting evidence to multiple tribunals simultaneously. However, with so much common evidence and no physical hearing room, it was not much different from a virtual hearing before a single arbitrator or tribunal, and it reduced the total number of hearing days devoted to individual claims. The arbitrators agreed to move forward after setting certain ground rules to protect the integrity of the proceedings. For instance, they refrained from discussing the merits among themselves during these joint evidentiary sessions. The parties also brought new thinking to the process. Instead of hundreds of separate examinations of the same expert witness, the parties agreed to prerecord expert testimony and replay it as needed.

In this case, restrictions on in-person gatherings collided with increased interest in multiple filings in employment disputes. Even so, over the last four months of the year, one-quarter of the cases against this employer had been resolved. Under the original process, that much progress could have taken more than a year. The popularity of multiple filings also led to innovations from Information Services and Intake teams, who deployed systems for managing the sheer volume. The AAA-ICDR can now recommend a variety of best practices for disputes involving multiple filings, even where in-person hearings would be possible.

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AAA New York State Insurance Division (NYSI)

Divisional Report

For over 40 years, the **AAA New York State Insurance Division** has been the trusted administrator of the No-Fault automobile insurance and Supplemental Underinsured / Uninsured Motorists (SUM) programs for the New York State Department of Financial Services (DFS).

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As the pandemic tightened its grip on the state, the Division moved all hearings and more than 180 arbitrators to virtual format, while also transitioning its own staff off-site. Even so, there was minimal disruption in processing filings and scheduling cases for hearings, and a dedicated video team assisted arbitrators and parties who were not yet accustomed to videoconferencing. By the end of 2020, the Division had administered more than 122,000 no-fault hearings. DFS has indicated that it will continue to use virtual hearings in the future.

AAA Mediation.org®

Divisonal Report

In 2020, the AAA-ICDR once again pushed the frontier of mediation forward. In conjunction with the Commercial Division, a new pro bono mediation program offers landlords and tenants access to mediators with real estate experience when resolving post-eviction moratorium repayment disputes. Other new programs provide fixed-rate mediation for COVID-related disputes and, in a growth area, assistance in mediation of esports business disputes. The Mediation team developed and delivered two eight-hour advanced global mediation and advocacy courses, as well as training at a dozen industry conferences; published eight video podcasts; and presented four standalone training sessions, primarily on complex mediation.

Committee of the Council

The **Mediation Committee** of the AAA-ICDR Council collaborated with AAA Mediation.org on the COVID-19 fixed-rate mediation and evictions moratorium pro bono mediation programs. The Committee also established a private credentialing partnership with the Southern California Mediation Association.

CaseShield by AAA℠

AAA-ICDR panelists often function in small office environments and may only have access to consumer-level, rather than enterprise-grade, security software. To provide arbitrators with a platform that inspired more confidence that case information and communications were protected, the Association introduced CaseShield by AAA, and NYSI piloted that technology in 2020 on its high-volume caseload.

CaseShield by AAA users work online from secure, remote desktops that the AAA-ICDR keeps updated with the latest software, including top-of-the-line antivirus and malware protection. The experience is seamless: Arbitrators work in the cloud but from their own personal devices.

After a successful pilot program with 25 No-Fault arbitrators in the fall of 2020, DFS approved the system. By the end of 2020, all NYSI No-Fault arbitrators were equipped with CaseShield by AAA, and the AAA-ICDR intends to expand use to other caseloads.

Using Mediation to Narrow the Issues in Stalled Court Proceedings

Federal bankruptcy courts are crucial to the functioning of the U.S. economy and, in a year of financial strain for many, Chapter 11 filings increased 20% while federal courthouses across the country remained inaccessible for months.

That left one billion-dollar bankruptcy—six parties, 40 participants—at a standstill, with creditors eager for resolution. Under the circumstances, mediation was the best option. However, the bankruptcy court's formal mediation program imposed technical constraints for virtual sessions that were not suited to the parties' needs.

An AAA-ICDR executive reached out to the trial court and made the case for a customized, Zoom-based mediation process. The judge then recommended the approach to the parties, who agreed to move forward. This ad hoc procedure, developed early in the pandemic, already featured best practices for virtual hearings that would become a centerpiece of the AAA-ICDR's response to the pandemic:

- **Tailoring the Process**
  The AAA-ICDR recommended co-mediators here due to the number of participants. An added benefit: One of those mediators had experience with the videoconferencing platform.
- **Teaching the Technology**
  Before the mediation, the AAA-ICDR convened a practice session, which it now recommends for all cases so participants gain a baseline comfort level early on.
- **Designing a Virtual Hearing Room**
  With so many participants in this mediation, it would be challenging to keep track of individuals and their affiliations, so case staff encouraged everyone to use profile images labelled with their full names. This simple recommendation may seem obvious in retrospect, but it was an important insight early in the move to virtual hearings.
- **Overcoming Technical Challenges**
  Any videoconference is susceptible to connectivity issues. In a preview of case management services that would roll out during the summer of 2020, AAA-ICDR staff stayed online to help participants keep disruptions to a minimum.
- **Building Trust**
  After convening for four days, there was still more to do. The parties, having familiarized themselves with the process, were comfortable adding another day, which was enough for them to narrow or resolve key issues.

ADR complements court systems, expanding options for resolution even after judicial proceedings have already commenced. These parties made meaningful progress in mediation, reducing the burden on bankruptcy court resources while modelling new approaches that will benefit case participants in future disputes.

International Centre for Dispute Resolution

The **International Centre for Dispute Resolution (ICDR)** and its Asia Case Management Centre in Singapore were affected by the pandemic very early in the year. The ICDR pivoted quickly, converting planned in-person educational and other programs into easy-to-access virtual events.

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The ICDR's Singapore office alone organized and participated in 28 events over the course of 2020, including a Virtual Summit to commemorate the anniversary of the expansion of the ICDR's presence in Asia and a series of "Coffee Connect" online events, from webinars to panel discussions, that addressed timely topics like Expert Testimony, and Enforcement of Awards in Crisis Times and Stalled Arbitration Disputes: Progress and Predictions in 2021. The ICDR Americas Conference took place virtually in December.

The ICDR also convened a technology working group, as well as various other advisory groups. Arbitrator symposia, training and education efforts took place virtually, which enabled new panelists to become active without delay, and all ICDR employees were able to remain engaged with parties, representatives and others in the international arbitration community.

Committee of the Council

In addition to its broad outreach and engagement activities, the **International Committee** of the AAA-ICDR Council advised the ICDR as it completed amendments to its International Dispute Resolution Procedures, which now include a duty to discuss cybersecurity and address potential disclosure of third-party funding arrangements.

Diversity and Inclusion

In 2020, a series of individual tragedies, many involving law enforcement, commanded national attention even as the pandemic took hold. The AAA-ICDR's response honored its historical commitment to social and racial justice.

Strengthening Trust in ADR Through Panel Diversity

A basic feature of ADR is the freedom parties have to select neutrals based on their backgrounds and experience. That can mean more than legal or subject matter expertise. The AAA-ICDR understands this and gives parties latitude to take into account the factors that are important to them in selecting a neutral.

The Association's focus on panel diversity dates back many years. It was an original co-sponsor of the National Women's Arbitrator Development Program in 1979. In 1986, it co-sponsored a minority labor arbitrator development program with Cornell and Hofstra Universities. In the mid-1990s, the Association was designated as administrator to streamline resolution of charges filed with the New York State Division of Human Rights, the Association's Los Angeles office helped design an arbitration advocacy program to promote alternative dispute resolution in Black legal and business communities, and an AAA-ICDR task force explored strategies for increasing gender diversity among panelists. The AAA-ICDR established the Higginbotham Fellows program in 2009.

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Diversity is an organizational imperative when recruiting panelists:

- The Higginbotham Fellows program gives those from backgrounds underrepresented in ADR the opportunity to learn about the field and begin building a network. A kickoff event for the 2020 Higginbotham Fellows program took place in May, and the full program of activities will move forward later in 2021.
- The AAA-ICDR established a new Council-level committee focused on diversity and inclusion—panel diversity, education and external coordination—to ensure the best thinking from beyond the organization informs the Association's responses to these important issues. The committee co-chairs, Council member Angela Foster and AAA-ICDR Associate General Counsel Sasha Carbone joined Council members Theo Cheng, William Crosby, Kabir Duggal, Ruth Glick, Michelle Johnson Tidjani and Christi Underwood for the committee's inaugural term.
- Ensuring a Roster that reflects varied experiences is not enough, though. Each year, AAA-ICDR arbitrators are required to complete Arbitrator Continuing Education, and the topic for 2020 was Arbitrator Performance & Demeanor—Guarding Against Bias, because identifying personal biases is the first step in controlling them.

With parties unfettered by geography in 2020, case administrators were free to tap a much broader pool of potential arbitrators for any given dispute. This was an unprecedented chance to present diverse slates of neutrals to parties. The Association's internal Diversity & Inclusion Committee, with support from the Statistics and In-House Research team, tracks progress in this area, which has steadily increased, year over year, for the past three years. In 2020, 51% of new panelists added to the Roster were women or minorities. In 2020, 94% of lists of proposed panelists were at least 20% diverse and 31% of appointments were diverse.

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AMERICAN ARBITRATION ASSOCIATION® | INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION®

FOUNDATION®

Responding to Community Conflict

Not all disputes arise out of contracts or involve issues easily reduced to dollar figures. In fact, complex, multifaceted conflicts have served as catalysts for innovation in ADR.

As the Civil Rights Act of 1964 gave way to a new era in the U.S., the Association was promoting mediation as a means to resolve community tensions, address employment discrimination and reform the criminal justice system. In 1968, it established the National Center for Dispute Settlement, which focused on urban communities. In the 1970s, the Association worked to resolve disputes regarding bilingual education and desegregation in public schools. It also administered leadership elections for the National Organization of Women and the Gay Rights National Lobby, helping those organizations to pursue their own missions in the process. In the 1980s, the Massachusetts Commission Against Discrimination sent 120 old, unresolved cases to the Association for resolution through pro-bono and reduced-fee mediation programs.

Those efforts continued in 2020, with the AAA-ICDR committing to support two groups devoted to ethical policing: Effective Law Enforcement for All (ELE4A) and Active Bystandership in Law Enforcement (ABLE), which both help law enforcement officers collaborate on best practices for policing, including de-escalation of encounters that could devolve into use of excessive force. The AAA-ICDR is one of two co-sponsors for ABLE and the AAA-ICDR's Marketing Department advised ELE4A on its website and messaging, in addition to funding from the Association, as the new organization began to engage with government, police departments and unions, and local communities.

Resounding calls for racial justice and the impact of a global health and economic emergency on the most vulnerable Americans were sources of inspiration for the AAA-ICDR Foundation in 2020. In June, the Foundation announced new grant opportunities, for up to $250,000 each, to address ADR accessibility and racial discrimination.

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The AAA-ICDR also donated, in late 2019, $100,000 to fund diverse law students/professionals with up to $2,000 of financial assistance towards participation in a degree program or fellowship in alternative dispute resolution or attendance at a well-recognized conference, including the AAA-ICDR Higginbotham Fellows program. The mission of the Diversity Scholarship Fund is to encourage diversity and inclusion within the field of ADR by supporting the pursuit of knowledge and skill development through training experiences that encourage inclusive leadership growth in the field of ADR.

The Foundation, funded primarily by donations from the Association and panelists, evaluates grant proposals in annual "cycles." The 2020 cycle, completed in September, awarded over $550,000 in total to 17 initiatives committed to restorative justice, access to justice, and ADR for underserved populations and communities torn by racial, ethnic and religious conflict. The Foundation has awarded $2.1 million to grantees since 2015.

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Sharing and Listening

The AAA-ICDR's Diversity & Inclusion Committee emphasized virtual engagement efforts in 2020. With no travel necessary and no physical space limits, it was possible to reach new audiences. Meeting diverse professionals wherever they may be is one of the ways the AAA-ICDR recruits them as panelists. Experimentation with virtual formats in 2020 is likely to inform a hybrid live-virtual approach to outreach in the future.

2020 Diversity and Inclusion Events

January 28
The AAA-ICDR co-sponsors the New York Law School ADR and Diversity Symposium

February 22-25
The AAA-ICDR sponsors the 2020 National Association of Minority and Women Owned Law Firms (NAMWOLF) Driving Diversity and Leadership Conference

May 4
2020 Higginbotham Fellows Kickoff Event

July 27
The AAA-ICDR moderates an Alternative Dispute Resolution Section panel discussion for the annual National Bar Association Convention

August 27
The AAA-ICDR is a sponsor of the ABA Commission on Women in the Profession: Margaret Brent Awards Ceremony.

September 14-18
The AAA-ICDR presents at the NAMWOLF 2020 Virtual Annual Meeting

October 20, 27
The AAA-ICDR is a sponsor for the MCCA Creating Pathways to Diversity Conference

November 4-7
The AAA-ICDR is a sponsor for the National Asian Pacific American Bar Association Virtual Conference

Shared Services

The pandemic fundamentally changed businesses, with distilleries manufacturing hand sanitizer, restaurants selling meal kits and commercial suppliers serving consumers. Although 2020 changed where and sometimes how work was done, the AAA-ICDR's mission did not change, and a sense of community allowed that mission to advance uninterrupted in 2020.

For years, the AAA-ICDR has been refining business continuity plans for the services customers and panelists rely on, including hearing spaces in over a dozen offices, online platforms like Panelist eCenter® and AAA WebFile®, and a large number of public-facing employees. The year put all of that planning to the test.

Starting in February, the Association's COVID Executive Task Force met daily. The Human Resources, Legal and Corporate Services teams prepared safety protocols and training plans; refitted offices for safe, socially distanced operations; and tracked and analyzed evolving mandates from the cities and states where the AAA-ICDR operates. The Association's Marketing team built an online COVID-19 resource center at www.adr.org that kept parties, panelists and the public apprised on the latest guidance.

The entire Information Services (IS) team—not only technical support personnel, but software engineers, security experts and project managers—obtained and set up hundreds of scarce laptops and monitors. One-third of the AAA-ICDR was already equipped to work from home before the pandemic began, but that proportion increased to more than 90% in barely a month.

While also addressing heightened security considerations for remote work, IS completed almost 40 separate software releases during 2020, featuring improvements to electronic payment systems, a redesign of the popular ClauseBuilder app, two new AAA-ICDR mobile apps, and a blockchain-enabled online and telephonic voting system. Six AAA-ICDR–affiliated websites served as a vital resource to parties, panelists and the public as online filings and digital case management became even more important than usual.

Notwithstanding the challenges of 2020, case filings increased; AAA-ICDR headcount grew 2.2%; and teams in New Jersey, Minnesota and Florida even managed moves to new office spaces during the second half of the year. The AAA-ICDR was named among *The NonProfit Times'* "Best Nonprofits to Work For 2020" and *Crain's* "2020 Best Places to Work in NYC." It also was one of only seven recipients of *Pensions & Investments'* "2020 Excellence & Innovation Awards."

The AAA-ICDR was named among *The NonProfit Times'* "Best Nonprofits to Work For 2020" and *Crain's* "2020 Best Places to Work in NYC."

According to employees, the AAA-ICDR maintained its focus on employee engagement throughout the year:

99%

Agree the AAA-ICDR's response to the pandemic was timely.

97%

Trust the AAA-ICDR's communications to them regarding COVID-19.

94%

Intend to remain at the AAA-ICDR for at least the next two years.

2020 A Year in Review

TIMELINE

2020

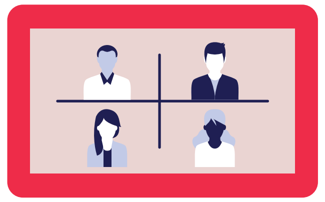
A Year in Review

January 1
Multiemployer Pension Plan Rules for Withdrawal Liability Disputes are amended for the first time in nearly 40 years to update arbitrator selection and conflict disclosure processes, as well as fees.

February 5
AAA-ICDR announces reaching the milestone of **Six million cases administered since 1926.**

March 16
First AAA-ICDR announcement about the pandemic: "While the AAA-ICDR remains active and operational, no hearings will take place in AAA-ICDR hearing facilities after March 20th until at least April 17th."

April 1
AAA-ICDR named, for the second year in a row, to the *The NonProfit Times'* "Best Nonprofits to Work For" list.



May 7
2020 Annual Meetings of the AAA-ICDR Council and Board held virtually.

Early June
Limited on-site operations resumed at AAA-ICDR offices in Atlanta, Dallas and Providence in line with guidance from the CDC and state and city officials. Over the next several months, some on-site presence resumed at 16 additional AAA-ICDR offices, with approximately 100 staff members volunteering to return.

APRIL

MAY

JUNE

January 23-24
The AAA-ICDR sponsored the ABA 2020 Forum on Construction Law Midwinter Meeting.

Late January
The Singapore Case Management Centre was the first AAA-ICDR location directly impacted by the pandemic, as local authorities began issuing precautionary advisories.

February 25
The "Technology Services" ADR portal goes live on www.adr.org.

adr.org/technology

Week of March 16
7,000 cases resolved;
4,700 new cases filed.

Mid-April
Over 90% of AAA-ICDR staff working remotely.

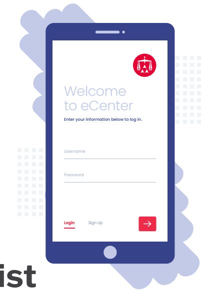
April 22
Best practices resources for virtual hearings go live on www.adr.org.

May 7
AAA-ICDR Guide to Virtual Hearings with Zoom published.

May 26
AAA Mediation.org launches the COVID-19 Evictions Moratorium Mediation program.

June 9
New AAA-ICDR Rules and Clauses mobile app launches.

June 10
Labor staff offer complimentary Zoom for Labor Arbitration Hearings training session.



July 13
New Panelist eCenter mobile app launches.

August 12
Second installment of new Construction webinar series: How Do We Get the War Stories If We're Never Allowed to Go to Battle?

August 14 and 15
AAA-ICDR executives present Walking the Tight Rope in Mediation: The Art of Balancing Evaluation Techniques, a series of case simulations, for the 28th Annual Virtual Conference—Florida Dispute Resolution Center.

American Arbitration Association | International Centre for Dispute Resolution
FOUNDATION

September 2
AAA-ICDR Foundation announces over **$550,000 in grants awarded to 17 grantees for its 2020 grant cycle.**

September 10
AAA-ICDR matches employee donations up to $25,000 to support relief efforts for Hurricane Laura and West Coast wildfires.

October 13
Third installment in new Construction Division webinar series: How to Effectively Deal with the 300-Change Order Dispute: Who Controls the Process?

November 1
A new Employment Multiple Case Filings Fee Schedule reduces filing requirements for all parties and promotes early settlement.

December 1
AAA-ICDR staff donated all amounts budgeted for year-end celebrations to dozens of charitable causes.

December 7
The AAA-ICDR co-organized the AAA-ICC-ICSID Joint Colloquium on International Arbitration.

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

July 22
First installment of new construction webinar series: The Best Defense is a Good Offense: The Keys to Claims Prevention and Mitigation.

August 21
The Association's Labor team sponsored an online panel discussion on best practices for virtual labor arbitration hearings.

October 28-30
The Construction Division partners on the 2020 DRBF Connections Conference.

November 19
AAA-ICDR Labor staff sponsored a panel discussion on negotiating dispute resolution clauses and conducting arbitration hearings during the pandemic.

December 31
New hearing exhibits space launches on the AAA WebFile platform, allowing parties to share case materials with arbitrators online.

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2020 ANNUAL REPORT

& FINANCIAL STATEMENTS

TRUSTED IN TIMES OF CRISIS

American Arbitration Association®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

New York, New York
April 28, 2021

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CASH AND CASH EQUIVALENTS	$ 46,678,000	$ 23,115,000
RESTRICTED CASH	4,919,000	4,860,000
INVESTMENTS - At Fair Value	258,404,000	172,721,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of $573,000 in 2020 and $430,000 in 2019	18,765,000	22,543,000
OTHER RECEIVABLES	954,000	776,000
PREPAID EXPENSES	3,911,000	3,494,000
INTERNAL-USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	409,000	649,000
FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS - Net	21,436,000	21,509,000
TOTAL ASSETS	$ 355,476,000	$ 249,667,000
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 174,722,000	$ 111,976,000
Accrued postretirement medical costs	13,273,000	11,610,000
Agency fund	4,919,000	4,860,000
Deferred rent	4,912,000	5,211,000
Deferred revenue	57,313,000	37,206,000
Total Liabilities	255,139,000	170,863,000
Commitments and Contingencies		
NET ASSETS:		
Without donor restrictions:		
Undesignated	22,471,000	2,355,000
Board Designated	77,866,000	76,449,000
Total without donor restrictions	100,337,000	78,804,000
TOTAL LIABILITIES AND NET ASSETS	$ 355,476,000	$ 249,667,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Administration fees earned:		
Commercial	$ 74,856,000	$ 66,055,000
State insurance	34,594,000	34,333,000
Labor	3,861,000	5,079,000
Elections	2,935,000	5,242,000
Totals	116,246,000	110,709,000
Publications and education	678,000	1,374,000
Other operating income	1,416,000	1,596,000
Totals	118,340,000	113,679,000
OPERATING EXPENSES		
Administration of tribunals	94,735,000	93,026,000
Elections	3,507,000	5,142,000
Publications and education	1,188,000	1,466,000
General and administration	5,761,000	6,081,000
Totals	105,191,000	105,715,000
Net Operating Income	13,149,000	7,964,000
NON-OPERATING INCOME AND EXPENSES		
Investment return, net	9,777,000	12,264,000
Pension plan termination	–	(19,760,000)
Loss on disposal of assets	(55,000)	(21,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE CHANGE IN NET ASSETS	22,871,000	447,000
Pension liability adjustment	–	17,379,000
Postretirement medical obligation adjustment	(1,338,000)	(2,299,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	21,533,000	15,527,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	78,804,000	63,277,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	$ 100,337,000	$ 78,804,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 21,533,000	$ 15,527,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,278,000	4,884,000
Bad debt and change in provisions for uncollectible accounts	662,000	169,000
Deferred rent	(299,000)	(414,000)
Net realized and unrealized gains on investments	(6,924,000)	(9,284,000)
Loss on disposal of assets	55,000	21,000
Changes in operating assets and liabilities:		
Decrease/(Increase) in administration fees receivable	3,116,000	(3,220,000)
(Increase)/Decrease in other receivables	(178,000)	383,000
Increase in prepaid expenses	(417,000)	(145,000)
Increase in accounts payable and accrued expenses	62,746,000	20,491,000
Increase in accrued postretirement medical costs	1,663,000	2,415,000
Decrease in accrued pension liability	–	(3,502,000)
Increase in agency fund	59,000	341,000
Increase in deferred revenue	20,107,000	3,480,000
Net cash provided by operating activities	107,401,000	31,146,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(4,611,000)	(3,693,000)
Proceeds from sale of investments	62,774,000	16,609,000
Purchase of investments	(141,533,000)	(30,261,000)
Internal use software development and construction in progress	(409,000)	(649,000)
Net cash used in investing activities	(83,779,000)	(17,994,000)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	23,622,000	13,152,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	27,975,000	14,823,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 51,597,000	$ 27,975,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 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 ("U.S. GAAP") 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.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606. 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 2020 and 2019 of $383,000 and $274,000, respectively, which is included in the accompanying consolidated balance sheets 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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 FASB ASC Topic 606, the Association recorded deferred revenue from administration fees of $55,315,000 and $35,465,000 as of December 31, 2020 and 2019, respectively, which is included in the accompanying consolidated balance sheets.

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, 2020 and 2019, deferred revenue from education and services revenue of $207,000 and $94,000, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

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, 2020 and 2019, payments received in advance of the start of the assessment year totaling $439,000 and $508,000, 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. As of December 31, 2020 and 2019, such deposits received in advance of demands for arbitration being filed totaling $969,000 and $865,000, 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 $46,678,000 and $23,115,000 as of December 31, 2020 and 2019, respectively.

Restricted cash:

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

	2020	2019
Cash and cash equivalents	$ 46,678,000	$ 23,115,000
Restricted cash	4,919,000	4,860,000
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 51,597,000	$ 27,975,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 and 2019 is $4,919,000 and $4,860,000, 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, cash equivalents, and restricted cash in bank deposit and other accounts, the balances of which exceeded federally insured limits by $60,839,000 and $35,475,000 as of December 31, 2020 and 2019, respectively. The Association places its cash, cash equivalents, and restricted cash with creditworthy, high-quality financial institutions. Credit risk with respect to administration fees receivable is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its administration fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:

Investments are reported at fair value. Cash and cash equivalents included in investments are held for investment purposes. Changes in unrealized investment gains or losses are reported as investment return 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 thirteen years.

Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 and 2019. The Association's Federal and state income tax returns prior to fiscal year 2017 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 consolidated balance sheets. There were no interest or penalties paid for the years ended December 31, 2020 and 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, 2020 and 2019.

An operating reserve fund designated by the Board totaled $77,866,000 and $76,449,000 as of December 31, 2020 and 2019, 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 2020 and 2019.

Subsequent events:

The Association has evaluated subsequent events through April 28, 2021, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

NOTE 2 - INVESTMENTS:

Investments at December 31, 2020 and 2019 consist of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	$ 93,716,000	$ 94,227,000	$ 68,634,000	$ 68,299,000
Intermediate Term Bond funds	56,470,000	57,859,000	29,288,000	29,585,000
Inflation-Protected Bond funds	5,698,000	6,278,000	4,054,000	4,221,000
High Yield Bond funds	12,994,000	13,093,000	15,528,000	15,375,000
Emerging Markets Bond funds	6,361,000	6,690,000	6,640,000	6,803,000
International Equities funds	11,310,000	14,613,000	6,950,000	8,884,000
U.S. Equities funds	44,897,000	53,325,000	29,090,000	33,198,000
Emerging Markets Equities funds	2,719,000	3,970,000	1,729,000	2,282,000
Real Estate Investment Trust funds	6,580,000	6,625,000	1,986,000	2,112,000
Cash/Money Market funds	1,724,000	1,724,000	1,962,000	1,962,000
Totals	$ 242,469,000	$ 258,404,000	$ 165,861,000	$ 172,721,000

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 sheets 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, 2020 and 2019 were $1,740,000 and $804,000, respectively.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 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, 2020 and 2019.

Financial assets carried at fair value at December 31, 2020 and 2019 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2020 and 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 years ended December 31, 2020 and 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 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.

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

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

	Estimated Life	2020	2019
Furnishings and equipment	7 to 10 Years	$ 14,282,000	$ 12,942,000
Software developed for internal use	3 to 13 Years	17,210,000	17,846,000
Leasehold improvements	Term of Lease	12,172,000	11,802,000
		43,664,000	42,590,000
Less accumulated depreciation and amortization		(22,228,000)	(21,081,000)
Totals		$ 21,436,000	$ 21,509,000

In 2020 and 2019, the Association recognized a net loss of approximately $55,000 and $21,000 relating to the disposal of certain assets with original costs totaling $1,621,000 and $5,090,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of $17,210,000 and $17,846,000 as of December 31, 2020 and 2019, respectively. Related accumulated amortization as of December 31, 2020 and 2019 amounted to $8,810,000 and $8,948,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Software development costs in progress, for various case management applications, websites, and web applications, totaling $417,000, were placed into service in 2020 and are being amortized over a period of three to seven years. Additionally, the Association had software development costs in progress, inclusive of related software licenses, totaling $115,000 as of December 31, 2020. When placed in service these costs will be included in capital assets and amortized over an estimated life of three to six years.

The Association had construction-in-progress totaling approximately $294,000 as of December 31, 2020. These costs are primarily associated with leasehold improvements for office leases, which will be placed in service in 2021. 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 $232,000 in 2019 were placed in service in 2020.

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, 2020 AND 2019

Estimated future benefit payments in each of the five years subsequent to December 31, 2020 and in the aggregate for the five years beginning in 2026 are as follows:

January 1,	Healthcare Benefits
2021	$ 274,000
2022	300,000
2023	314,000
2024	332,000
2025	354,000
Years 2026 to 2030	2,202,000

For the healthcare benefit plan, the following tables set forth the plan's funded status and amounts recognized in the Association's consolidated financial statements at December 31, 2020 and 2019:

	Healthcare Benefits	
	2020	2019
Benefit obligation at December 31	$ 13,273,000	$ 11,610,000
Net unfunded status of the plan	$ (13,273,000)	$ (11,610,000)
Amounts recognized in the consolidated balance sheets consists of the following:		
Current liabilities	$ 274,000	$ 285,000
Noncurrent liabilities	12,999,000	11,325,000
Totals	$ 13,273,000	$ 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	$ 59,000	$ 72,000
Interest Cost	355,000	379,000
Amortization of net actuarial loss	196,000	–
Net periodic benefit cost at December 31	$ 610,000	$ 451,000
Unrecognized net loss included in net assets	$ 4,444,000	$ 3,106,000
Employer's contribution	285,000	334,000
Plan participants' contributions	76,000	74,000
Net periodic benefit costs	610,000	451,000
Benefit payments	(361,000)	(408,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	Healthcare Benefits	
	2020	2019
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:		
Net actuarial loss	$ 1,338,000	$ 2,299,000
Weighted-average assumptions to determine the benefit obligation as of December 31:		
Discount rate	2.50%	3.10%
Rate of compensation increase	N/A	N/A
Pre- and post-mortality	RP-2014 Employee and Healthy Annuitant Tables and projected forward with Scale MP-2020	RP-2014 Employee and Healthy Annuitant Tables and projected forward with Scale MP-2019
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:		
Discount rate	3.10%	4.20%
Unrecognized actuarial loss:		
Beginning of year	$ 3,106,000	$ 807,000
Actuarial loss	1,534,000	2,299,000
Amortization of net loss	(196,000)	–
End of year	$ 4,444,000	$ 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 year 2021 is $340,000.

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022. The rate was assumed to decrease gradually to 4.50% until 2025 and remain at that level thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 2034. 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 $9,466,000 and $9,260,000 for the years ended December 31, 2020 and 2019, respectively. In addition, the Association leases certain furniture, computer equipment, and office equipment under various operating leases, all of which expire over the next two 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, 2020 and thereafter are as follows:

Year Ending December 31,		Amount
2021	$	8,116,000
2022		8,169,000
2023		8,173,000
2024		7,582,000
2025		5,969,000
Thereafter		14,040,000
Total	$	52,049,000

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, 2020 and 2019, advance deposits collected totaled $127,659,000 and $95,612,000, 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 as of December 31, 2020 and 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 2020 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 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 respective operating budget, desired liquidity for 2021 and 2020 was determined to be approximately $17,066,000 and $16,756,000, respectively. 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 $77,866,000 and $76,449,000 at December 31, 2020 and 2019, respectively, with the President of the Association able to access up to an amount equal to 1% of the annual operating budget, or $1,092,000 and $1,080,000 in 2021 and 2020, respectively, 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, 2020 and 2019, the following table shows 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 consolidated balance sheets date to meet general expenditures:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	2020	2019
Financial assets at year-end		
Cash and cash equivalents – unrestricted	$ 46,678,000	$ 23,115,000
Restricted cash	4,919,000	4,860,000
Investments	258,404,000	172,721,000
Accounts receivable, net	18,765,000	22,543,000
Other receivables, net	954,000	776,000
Total financial assets at year-end	329,720,000	224,015,000
Less amounts not available to meet general expenditures		
Restricted cash	(4,919,000)	(4,860,000)
Cash held by AAA-ICDR Foundation	(2,234,000)	(1,997,000)
Investments related to deposits collected for panelist compensation	(127,659,000)	(95,612,000)
Investment assets securing letters of credit	(2,740,000)	(2,740,000)
AAA-ICDR Foundation investments	(4,323,000)	(2,130,000)
Board Designated Operating Reserve Fund, less 1% of annual operating budget available to be drawn by AAA President	(76,774,000)	(75,369,000)
Total financial assets available to meet general expenditures	$ 111,071,000	$ 41,307,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

NOTE 7 - FUNCTIONAL EXPENSES:

The consolidated 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.

For the years ended December 31, 2020 and 2019, the following tables show the total expenses of the Association by programs and management general and administrative expense:

	2020		
	Total	Programs	Management general and administrative
Salaries/benefits	$ 69,881,000	$ 66,123,000	$ 3,758,000
Occupancy	9,466,000	9,236,000	230,000
Office expenses	3,437,000	3,326,000	111,000
Travel, conferences, and meetings	394,000	356,000	38,000
Professional fees	8,600,000	7,938,000	662,000
Information technology costs	2,845,000	2,712,000	133,000
Bad debt expense	662,000	662,000	–
Depreciation/amortization	5,278,000	5,093,000	185,000
Direct program costs	2,644,000	2,644,000	–
Other operating expenses	1,984,000	1,340,000	644,000
Total operating expenses	$ 105,191,000	$ 99,430,000	$ 5,761,000

	2019		
	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
Total operating expenses	$ 105,715,000	$ 99,634,000	$ 6,081,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 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 adjust its operations accordingly, including taking cost saving measures and utilizing board-designated operating reserves. The Association anticipates that this matter may negatively impact the organization's financial position, results of operations, and cash flows, however, the aggregate effect of the financial impact and duration cannot be reasonably estimated at this time.