



AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE  
FOR DISPUTE RESOLUTION®

Mediation.org™

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2013 ANNUAL REPORT  
& FINANCIAL STATEMENTS

SAN FRANCISCO, CA  
MAY 15, 2014





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AMERICAN ARBITRATION ASSOCIATION®

## OUR SHARED MISSION

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

## OUR SHARED VISION

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

## OUR SHARED COMMITMENT TO DIVERSITY

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

Because of the breadth of the Association's work and the global reach of its services, we recognize the importance and contribution of a diverse work force, a diverse Roster of Neutrals and diverse Board and we commit to respect and increase diversity in all of our endeavors.

## OUR SHARED VALUES

### INTEGRITY

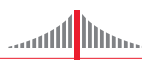
We develop and practice the highest ethical standards. We communicate openly, honestly and directly. We ensure that the integrity of the ADR process is preserved.

### CONFLICT MANAGEMENT

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

### SERVICE

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



## PRESIDENT'S LETTER



***OVERSPENDING ON DISPUTES IS A BURDEN ON THE PARTIES, THE COURTS, AND THE ECONOMY. THE WORK OF THE AAA AND ICDR HELPS TO RELIEVE THOSE BURDENS.”***

- India Johnson, President & CEO

## OUR DISPUTE RESOLUTION IMPACT IN 2013

Our ultimate goal is positive impact on the management of disputes in the U.S. and around the world. It may be through education, through excellent arbitration rules, through our Roster of Arbitrators and Mediators and their expertise, through our actual management of arbitrations or elections in a trustworthy manner. But make no mistake, the goal of the AAA, the ICDR and now Mediation.org is to have positive, extremely positive impact on how and how well disputes are resolved. Disputes cost organizations, individuals and governments in numerous ways beyond their financial cost. Many people and companies make their living off of the disputes of others –but not the disputants themselves. They are supposed to be doing something else –making products and delivering services, building, selling and innovating–not immersed in disputes and their related costs.

2013 was a very significant year for us as an organization, both in terms of the people and organizations we helped, the number of disputes resolved and the renewal of our core infrastructure and functionality –human, technological, and bricks and mortar. Our New York Insurance claims program broke a record –reaching 165,000 cases in 2013– partly because the timeframe for litigating these cases in court has now stretched to as long as three years as opposed to the AAA's nine to 12 months. Just as important, we drove the average cost per case down by 63% over the last five years even as the number of cases was increasing by double-digit percentages. In addition, the States of New York and New Jersey selected the AAA to administer their respective disaster mediation programs after Super Storm Sandy (October 29, 2012), established to resolve disputes between homeowners / businesses and insurers. The AAA managed almost 3,000 cases for these programs in 2013, with a settlement rate of 64%.

In our core service areas of contract dispute resolution, our International Centre for Dispute Resolution (ICDR) broke its own previous record as international filings reached nearly 1,200 cases in 2013. Cases with parties from more than 100 countries were filed with the ICDR representing aggregated claims and counterclaims of \$7.2 billion. The ICDR Rules were written into the contracts associated with a \$20 billion infrastructure project in Colombia, and the ICDR was selected to handle international derivatives securities claims heard in New York City by the ISDA, the International Swaps and Derivatives Association. The ICDR was also chosen by the United States Commerce



India Johnson, President & CEO

Department to help businesses and lawyers in Afghanistan make better use of alternative dispute resolution (ADR). We also helped the Internet Corporation for Assigned Names and Numbers (ICANN) with certain types of domain name disputes.

Domestically, the healthcare industry was making broader use of ADR and larger numbers of new cases were filed involving medical care providers and healthcare insurance companies. However, we also had cases involving new medical devices, pharmacology and bio-pharma inventions and innovations. The claim amounts in these cases can be substantial, in addition to being very complex. Last year, the number of healthcare industry cases with claims exceeding \$1 million increased by more than 50%. Other industries and practice areas that were more frequent users of arbitration through the AAA in 2013 than in 2012 included Energy, Franchising, and Employment, to name a few.

While a more vigorous business economy with a larger number of transactions has produced more commercial claims, the AAA is still very engaged in the public sector use of mediation for homeowners involved in foreclosure litigation in Florida. Our Sarasota-based, court-annexed mediation program, conducted in conjunction with the University of South Florida, administered more than 3,000 mediations involving disputes between homeowners and their lenders, with a settlement rate of 50%, which is very high in litigation where the consumer is the defendant.

## FACILITIES, TECHNOLOGY, AND NEW WEB PRESENCE

Some of the changes we implemented in 2013 are clearly visible in new surroundings such as the opening of a major hearing center in midtown Manhattan, our New York Insurance Division conciliation center and our headquarters office, both located in downtown Manhattan. Our flagship New York regional office containing large, state of the art conference and hearing rooms is located at 150 East 42nd Street. At this location, we sublet 5,000 square feet to the New York International Arbitration Center (NYIAC), a new not-for-profit organization dedicated to promoting New York as a seat for international arbitration. NYIAC has built modern hearing facilities capable of accommodating large hearings as well. At the end of 2013, we moved another key office, the Dallas case management center and regional office, to new and modern space.

Our Information Services group was busy all year, establishing a co-location site for our servers, building a new disaster recovery site in Dallas, outfitting our new Manhattan offices with audio/video equipment, working on a number of software projects, and then moving the Dallas staff to their new offices late in the year.

We continued work on our new, state of the art, technology platform, internally called PRISM, externally known as WebFile, or eCenter for arbitrators and mediators. We also launched an even more unique technology project for our major claims program, New York No-Fault Insurance Conciliation and Arbitration, with an ADR-expert technology partner, MODRIA. The new AAA New York Auto Insurance case management platform will be our first cloud-based technology system.


Our Marketing department launched a new international ADR website, [www.ICDR.org](http://www.ICDR.org), that is both a stand-alone site for our international work and is also accessible through our AAA site, [www.ADR.org](http://www.ADR.org). We launched an entirely separate and new site just for mediation, called [www.Mediation.org](http://www.Mediation.org), as part of our expanded push into the mediation area.

On that site, parties can find mediators with different types of expertise, contact them directly if they choose to do so, file a case with a Mediation.org Mediation Manager if they prefer, learn more about mediation, participate in the Mediation.org online community, and even get their own mediation articles published.

We launched a new online platform called ADRCommunity, where those interested in the ADR field can participate in discussions, post interesting information and articles, and learn about current events in the field of ADR. ADRCommunity also enables us to host private and public community sites. For instance, our Board of Directors has a private site on ADRCommunity as do our Higgenbotham Fellows alumni. But most areas of ADRCommunity are publicly accessible for those interested in arbitration or mediation and other topics. Those who are interested in the ADR field are encouraged to join the conversation and to become a member of ADRCommunity at [www.community.adr.org](http://www.community.adr.org).

In addition, we added construction industry agreements to [www.ClauseBuilder.org](http://www.ClauseBuilder.org), our innovative online tool for building better arbitration clauses. We will be adding international agreements and employment agreements to ClauseBuilder in the not-too-distant future as well. We believe that a good ADR experience can begin with a good clause; but it is much more difficult for a good arbitration experience to flow from a poorly drafted clause.

We beefed up our outreach efforts with a special focus on the legitimacy of arbitration –namely that arbitrators do NOT split the baby! We published data supporting that conclusion and ran the advertisements and messaging through print and radio outlets, including Bloomberg Radio, to reach the CEOs and CFOs who face B2B disputes regularly. The “split the baby” campaign won two different advertising awards. In the fourth quarter, when we were showing solid financial footing for the year, we even increased the spending on our advertising campaigns to reach further into legal publications in major cities as well as global publications.

 ***WE BELIEVE THAT A GOOD ADR EXPERIENCE CAN BEGIN WITH A GOOD CLAUSE; BUT IT IS MUCH MORE DIFFICULT FOR A GOOD ARBITRATION EXPERIENCE TO FLOW FROM A POORLY DRAFTED CLAUSE.”***

- India Johnson, President & CEO

## TALENT RECRUITING AND MANAGEMENT


On the talent management and service delivery side, we undertook a complete review and reconfiguration of the delivery of our large, complex commercial and construction cases, which are now directly managed in the regional offices by Vice Presidents and Directors. We were able to take advantage of the large number of legally trained individuals around the country and add 13 to our regional staff in Atlanta, Boston, Charlotte, Chicago, Denver, Houston, Los Angeles, Miami, New York, Phoenix, San Antonio, San Francisco, and Washington, D.C. And it is a good thing we did, because we had \$2 billion more in claims and counterclaims filed in those large cases in

2013 than in 2012. These offices saw significant increases in Healthcare, Energy, Franchising and Partnership cases, and these cases benefited from expert, engaged case management executives.

In October, we held a management meeting in New York for all of our executives from the U.S., Europe and Singapore to focus on improving AAA and ICDR relevance in our important mission—preventing disputes and resolving disputes faster, and more humanely. It had been five years since the last AAA/ICDR management meeting took place.

## NEW AND REVISED RULES

Our Commercial Division and our Legal Department worked with the Board to issue revised Commercial Arbitration Rules with modern features, strengthening the arbitrator's ability and authority to manage cases effectively. We took a bold leap and inserted a required mediation step into the process leading up to the hearings, an added effort to help those who might be able to settle their own cases without a protracted hearing and an award. We also issued the AAA's first set of rules for an optional appellate arbitration process.

 ***WE TOOK A BOLD LEAP AND INSERTED A REQUIRED MEDIATION STEP INTO THE PROCESS LEADING UP TO THE HEARINGS, AN ADDED EFFORT TO HELP THOSE WHO MIGHT BE ABLE TO SETTLE THEIR OWN CASES WITHOUT A PROTRACTED HEARING AND AN AWARD.***

- India Johnson, President & CEO



## BUILDING THE AAA, ICDR AND MEDIATION.ORG CONTINUES, AS IT SHOULD!

This year we turned 88 years old, yet we approach our mission every day as if we are a start-up! Disputes and conflicts are inevitable, but they can impede progress on a small to a large scale and keep the economy from working the way it should. Overspending on disputes is a burden on the parties, the courts, and the economy. The work of the AAA and ICDR helps to relieve those burdens.

We will continue our efforts on all fronts: elevating the quality of our internal and external talent to assist parties with the resolution of their disputes; integrating improved technology to make case management easier and better; increasing the AAA's geographical presence through our skilled executives and large, complex case staff; developing innovative rules; and educating experts as well as generalists and the general public about ADR.

But we cannot and we do not do it alone. We rely on our Directors, arbitrators, mediators and other stakeholders to help us, to educate us, and to support our ongoing efforts

to bring the value of out-of-court dispute resolution to reality. Join us in promoting the benefits of expert conflict management skills, processes and systems for disputes that need to be amicably resolved.

Last, but not least, join us in supporting and promoting this organization that will follow when appropriate... but likes to lead the way when possible! Register for our education classes, online or in person; subscribe to our *Dispute Resolution Journal*; and join ADRCommunity. Use our online ClauseBuilder tool and tell others about it so they can benefit from improved dispute resolution clauses. If you are a mediator, subscribe to [www.Mediation.org](http://www.Mediation.org), so people can find you when they need you, and tell others about us so they can benefit from our expertise.



India Johnson, President & Chief Executive Officer



## HIGGINBOTHAM FELLOWS AND DIVERSITY EFFORTS

2013 marked the fifth year of the AAA Higginbotham Fellows Program, which is devoted to providing a pipeline for up-and-coming diverse ADR practitioners to advance in the field. The AAA selected 23 Fellows from around the country and Africa whose backgrounds included labor, employment, commercial and international practices. These Fellows are exceptional among their peers, and were selected for the promise that they demonstrated to become future ADR leaders. Connected to the AAA Higginbotham Fellows Program is the AAA's robust mentoring program. The AAA Higginbotham Fellows were matched with AAA neutrals who made a one-year commitment to provide networking opportunities and advice to the Fellows during the Fellowship year.

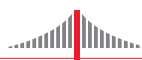
The AAA Higginbotham Fellowship Program continues to experience concrete results with past Fellows making gains in their ADR careers. Six AAA Higginbotham Fellows have successfully advanced to the AAA Roster of Arbitrators. All six former Fellows have been listed on numerous arbitrator lists provided to the parties in the short period of time that they have been on the panel, and all have been appointed to at least three arbitrations administered by the AAA.

The AAA Diversity Committee also continues to work with national, minority and local bar associations and other

organizations to provide training and other opportunities for diverse practitioners. These groups include the American Bar Association, the National Bar Association, the New York City Bar Association, the National Asian Pacific American Bar Association, the New York State Bar Association, Arbitral Women, the College of Commercial Arbitrators and other organizations around the country.

Another important area that should be highlighted is recruitment and promotion of diverse neutrals. For example, for opportunities like the Storm Sandy mediation programs, the AAA directly recruited to minority groups to ensure that those rosters were diverse. The AAA also continues to promote diverse neutrals by featuring them as speakers on AAA programs and webinars, and providing opportunities for exposure to ADR users. In 2013, the AAA continued its program with the New York City Bar Association featuring new labor arbitrators using case scenarios and a panel discussion.

In 2013, the Diversity Committee also created content on the AAA's website to provide a centralized place for information about the AAA's diversity efforts, and improved our communication regarding these efforts through the use of LinkedIn, ADRCommunity and other social media tools.





BY THE END OF THE YEAR, MORE THAN  
**800** LARGE, COMPLEX CASES  
WERE ADMINISTERED BY VICE  
PRESIDENTS AND DIRECTORS.

## COMMERCIAL DIVISION

The Commercial Division experienced overall case growth of 10% in “key industries” during 2013. The healthcare caseload increased by 43% over the prior year’s numbers, with cases over \$1 million growing by 51%. The number of energy-related cases increased by 29%, with cases over \$1 million increasing by 27%. Franchise case filings increased by 18%, while cases of \$1 million or more increased by 92%.

In 2013, the Commercial Division released revised Commercial Arbitration Rules. The Rules revisions were the product of a three-year effort that involved input from users, advocates, neutrals and AAA Board members and included a number of amendments that reflected user preferences for a more streamlined, cost-effective and tightly managed arbitration process.

Among the significant changes was the addition of a mediation step that requires parties with claims in excess of \$75,000 to mediate their dispute at some point during the arbitration –unless they opt out of mediation in writing. Other changes addressed the efficiency and management of the arbitration process, including a new set of procedures that addresses issues such as the preliminary hearing, prehearing exchange and production of information, electronic document production, emergency measures of protection, as well as a section that provides arbitrators with specific authority to issue orders necessary to ensure a fair and efficient arbitration process.

Early in the year, the AAA established the Administrative Review Council (“Council”) with executive-level administrative decision-making authority to resolve certain administrative issues arising out of the AAA’s large, complex domestic caseload. The decisions made by the Council resolve such critical issues as challenges to arbitrators, locale determinations, and whether the AAA’s filing requirements have been satisfied. The Council consists of current and former AAA executives who bring significant ADR experience to the decision-making process and ensures that the highest level of service delivery is provided on

AAA-administered cases. In 2013, approximately 200 issues were considered by the Council.

Rulings by the U.S. Supreme Court have reinforced that parties are limited in their ability to expand the narrow grounds for court review of an arbitration award under the Federal Arbitration Act. In recognition, however, of the categories of large, complex cases where the ability to appeal an award is particularly important to the parties, the AAA developed a new set of Optional Appellate Arbitration Rules. The new Rules provide parties with a streamlined, standardized appellate procedure that allows for a high-level review of arbitral awards within the arbitration process that is consistent with the objective of an expedited, cost-effective and just appellate arbitral process. Appeals can be determined upon the written documents submitted by the parties with no oral argument and, as a result, it is possible for the appellate process to be completed in about three months. An appellate panel was also created that consists of former federal and state judges and neutrals with strong appellate backgrounds.

In March, the AAA introduced a specially designed all-online appeals program for the Center for Copyright Information (CCI). The appeals result from Internet service subscribers who have allegedly infringed a copyright by sharing movies or songs via peer-to-peer networks. Through the end of the year, 263 cases were received.

In addition, the Commercial Division implemented significant case management service improvements by moving the case management of large, complex and other cases to Vice Presidents and Directors of ADR Services in Atlanta, Boston, Charlotte, Chicago, Denver, Houston, Miami, New York, San Antonio, San Francisco, Phoenix, and Washington, D.C. This elevated executive interaction facilitated a process that is tailored to particular case needs. By the end of the year, more than 800 cases were administered under this new structure.





BY THE END OF THE YEAR, MORE THAN  
**500** LARGE, COMPLEX CONSTRUCTION  
CASES WERE ADMINISTERED BY  
VICE PRESIDENTS AND DIRECTORS

## CONSTRUCTION DIVISION

Taking an even more comprehensive look at construction industry needs and effective dispute resolution was a focus of the Construction Division in 2013. Continuing its efforts to control/manage the cost and time of construction arbitrations, the AAA in cooperation with its National Construction Dispute Resolution Committee (NCDRC) developed supplemental arbitration procedures to provide an option for a cost- and time-effective construction arbitration process.

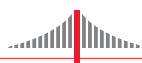
These Supplementary Procedures for Fixed Time & Cost Construction Arbitration envision the parties and their representatives working in a collaborative manner to move cases along within required timeframes and provide an arbitration process that is predictable in terms of time and cost. Among other things, the procedures:

- ▶ require that the parties designate a senior executive or in-house counsel be included in all case communications;
- ▶ set fixed costs, time frames and a maximum number of hearing days based on case size;
- ▶ utilize a mandatory meet-and-confer conference to agree on certain aspects of the process.

To use the new Supplementary Procedures, parties can either insert a provision in their contracts or agree to submission. The Procedures are expected to be released during the first half of 2014.

In addition, at the Annual Meeting of the NCDRC, the AAA initiated a review of the Construction Rules, last revised in 2009. The review process will engage client user groups and continue throughout 2014. It is expected that many of the recent Commercial Rules revisions will be considered for inclusion in the Construction Rules.

The Construction Division shifted the management of large, complex construction cases in 2013 to Vice Presidents and Directors of ADR Services located in five regional offices: New York, Philadelphia, Atlanta, Dallas and Los Angeles. This realignment enabled the Division to provide a more focused and customized process ensuring executive-level interaction on these cases, consistent with the needs of the construction industry.



# IN 2013, THE AAA UNDERTOOK A REVIEW OF THE LABOR ARBITRATION RULES AND PROCEDURES.

Changes to the rules –based on feedback from users, advocates, arbitrators and AAA staff– were designed to further elevate case administration efficiencies and were made effective in July 2013. New sections were added that enable the AAA to address administrative issues not previously covered in the rules and to manage cases without undue delays. The areas affected by the changes include, among others:

## JURISDICTION

A new section provides the arbitrator with specific authority to address jurisdictional issues that arise during the process and enables the administration of the case to proceed without undue delay.

## ORDER OF PROCEEDINGS

A new provision addresses the time and cost challenges in the process and encourages expeditious case management.

## AWARD MODIFICATION

A new section provides the AAA and the arbitrator with the authority to resolve issues with the award, such as clerical, typographical, technical, or computational errors. It does not include the authority to re-determine the merits of the award.

## LABOR, EMPLOYMENT AND ELECTIONS DIVISION

The Labor, Employment and Elections Division convened a group of employment advocates and arbitrators to tailor a set of initial discovery protocols for employment arbitrations. This initiative, based on a pilot project implemented in the federal courts, culminated in the creation of the AAA Initial Discovery Protocols for Employment Arbitration Cases. The new Protocols were designed to encourage parties and their counsel to exchange the most relevant information and documents early in the case, assist in framing the issues to be resolved, and plan for more efficient and targeted discovery. They also provide AAA arbitrators with an effective tool that encourages speed and cost effectiveness.

Ensuring inclusion is a significant aspect of the mission of the AAA. Last year, notable strides were made to increase the level of diversity on the labor and employment panels. Of the arbitrators added to the labor and employment panels in 2013, women and minorities accounted for 24% of the total number.

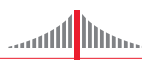
## IN 2013 THE ELECTIONS DEPARTMENT ADMINISTERED 207 ELECTIONS

resulting in the processing and tabulation of millions of votes for various organizations, including:

- ▶ National Association of Police Officers (NAPO)
- ▶ 1199 SEIU United Healthcare Workers East
- ▶ American Postal Workers International Union
- ▶ United Domestic Workers of America / AFSCME, Local 3930
- ▶ Cook County College Teachers Union
- ▶ Service Employees International Union-United Healthcare Workers West (SEIU-UHW)
- ▶ Philadelphia Federation of Teachers
- ▶ Fraternal Order of Police, Lodge 5

Elections were administered using a wide variety of voting systems such as online voting, IVR (telephone voting), mail ballot, and in-person voting.

In addition, the Elections Department was selected in 2013 by the Wisconsin Employment Relations Commission to develop a telephonic voting process to certify election balloting for thousands of union members throughout the State of Wisconsin.







INTERNATIONAL CENTRE  
FOR DISPUTE RESOLUTION®

IN ICDR CASES FILED IN 2013,  
THERE WERE PARTIES FROM

**102** DIFFERENT  
COUNTRIES.

INTERNATIONAL FILINGS IN 2013 REACHED

**1,165** A 17% INCREASE OVER 2012 FIGURES  
AND THE LARGEST NUMBER OF FILINGS  
EVER REGISTERED AMONG THE MAJOR  
INTERNATIONAL ARBITRAL PROVIDERS.

## INTERNATIONAL CENTRE FOR DISPUTE RESOLUTION (ICDR)

In 2013, the ICDR continued to reinforce its standing as one of the top providers of resolution services for international commercial disputes. International filings in 2013 reached 1,165 cases, a 17% increase over 2012 figures and the largest number of filings ever registered among the major international arbitral providers.

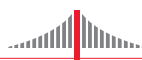
Among many other accomplishments in 2013, the ICDR was named by the government of Colombia to administer cases arising out of disputes issuing from concession contracts for infrastructure projects such as highways, roads and bridges throughout the country. In addition, the ICDR was selected as a dispute resolution provider for the European Union and United States Safe Harbor Program handling privacy disputes that may arise between E.U. nationals and U.S. companies. To date, 91 companies have registered under the program with hundreds more expected to register as well.

In response to feedback from the international and domestic business communities, in 2013 the ICDR started to develop a new set of supplementary procedures titled Final Offer Arbitration Supplementary Procedures that provide for a baseball arbitration process that can be used in tandem with the ICDR's International Arbitration Rules. The new Procedures better define the final offer arbitration process so as to enable parties to better assess and manage the risks and rewards of its adoption. Additionally, where the arbitral agreement specifies the use of final offer, baseball, or last-best-offer arbitration, the procedures provide a framework for the arbitration that does not exist elsewhere in AAA rules.

The ICDR also held an international arbitration program on November 13th in Brazil.

This was the ICDR's 6th program in Brazil conducted jointly with the American Chamber of Commerce and overall the 10th annual conference the ICDR has held in that country. Attended by more than 180 attorneys and dispute resolution professionals, the program featured an in-house corporate counsel panel that focused on ADR in Brazil and a luncheon panel composed of Brazilian and U.S. judges who provided insights on the development of arbitration law in their respective countries.

The ICDR continued its efforts to aid in the growth of sustainable arbitration and ADR centers in growing economies. In July 2013, ICDR Senior Vice President Mark Appel traveled to Ghana to assist the training of arbitrators for the Marian Conflict Resolution Center, Sunyani, Ghana. The training was organized by Fordham University and the Giving to Ghana Foundation and attracted a talented faculty that included former AAA Board members and senior executives. Similarly, the ICDR entered into an agreement with the U.S. Commerce Department to provide advice and assistance to the Afghanistan Chamber of Commerce and Industry (ACCI). Comprehensive advice and training will be provided to the ACCI's finance, center and case management staff. Areas of focus will include center management, long-range planning, policy development, business development, case management and arbitrator training.



## STATE INSURANCE CASELOADS

2013 was another landmark year for the New York automobile insurance programs. Filings of No-Fault automobile insurance cases reached 165,000 cases, a 15% increase from 2012's record volume, and the No-Fault panel was expanded to 115 arbitrators to meet the increased demand. No-Fault case dispositions increased sharply to 141,000, an increase of 36%. In March, the Division moved to a new facility at 120 Broadway in New York, which also houses the AAA's corporate headquarters. In March 2013, the division undertook the Storm Sandy New York mediation caseload, described in detail in a subsequent section of this Report.

In Minnesota, the No-Fault office received a record number of filings in 2013. The total number of cases filed was 7,343, an increase of approximately 9% over 2012 figures.

176,000  
AUTOMOBILE INSURANCE CASES

141,000  
NO-FAULT CASE DISPOSITIONS

3,400  
STORM SANDY DAMAGE  
INSURANCE DISPUTE CASES

## AAA EDUCATION SERVICES / PUBLICATIONS

Education efforts in 2013 featured a new, progressive focus on web-based/online education programs with expanded opportunities for Arbitrator Continuing Education (ACE) credit for AAA arbitrators. AAA Education Services presented 33 live webinar programs last year with 1,675 total registrations. It broadened the reach of its educational efforts by offering on-demand recorded versions of previously presented live webinars. Nearly 1,000 people in 2013 availed themselves of the 37 program titles available for around-the-clock public access. In total, the Education Services department either presented or participated in the presentation of more than 110 educational programs. In addition,

the existing online versions of the Association's five initial Arbitrator Continuing Education courses were reviewed and updated to reflect changes in arbitration law and practice, and two additional ACE courses premiered online. For the first time, completing any online course—whether "live" or pre-recorded—served to fulfill the annual Continuing Education requirement for AAA arbitrators.

In 2013, Publications released the redesigned *Dispute Resolution Journal*, produced in partnership with Juris Publishers and featuring a sleek new look and the same high-quality content authored by the foremost experts in the ADR field. Also published were the AAA

*Yearbook on Arbitration and the Law*—25th Edition (formerly *ADR & the Law*); *ICDR Awards & Commentaries*, featuring analysis of international arbitration awards issued under cases administered by the ICDR; and *Case Preparation and Evidence: A Guide for Arbitration Advocates and Arbitrators*, which continues the publishing partnership between the AAA and the Cornell School of Industrial and Labor Relations, Scheinman Institute on Conflict Resolution. Publications further expanded its labor and employment arbitration awards licensing program by finalizing an arrangement with Bloomberg BNA for the online publication of these awards in redacted, full-text form.





In 2013, the AAA launched Mediation.org to promote and enhance mediation education, practice and growth. The centerpiece of the initiative, the new mediation website, is an authoritative online source of mediation information and the hub of a new mediator community. It also serves as a subscription-based platform through which mediators can market and grow their mediation practices through publication of their résumés in a growing directory of top mediation practitioners.

Mediation.org also offers online filing and online mediation of certain types of cases, and innovative, customized programs for high-volume caseloads such as disaster recovery and mortgage foreclosure; mediation news and articles by experts in the field; and information about education and training opportunities. Last year, Mediation.org partnered with AAA Education Services on seven occasions in multiple locations around the country to present its five-day, in-person, basic mediator training course "Essential Mediation Skills for the New Mediator." The sold-out programs cover topics such as conflict theory, practice techniques, ethics, and role plays with detailed feedback.



# STORM SANDY MEDIATION PROGRAMS

In 2013, the AAA was selected by the states of New York and New Jersey to manage mediation programs established to help settle certain claim disputes arising from Storm Sandy between insurers and policyholders. The result was another example of the AAA providing an important public service and a successful partnership between the AAA and state agencies in administering natural disaster-related and insurance-industry dispute resolution claims programs.

## STORM SANDY NEW YORK

On February 25, 2013, the New York State Department of Financial Services designated the AAA as the provider of mediation services for certain claims in areas affected by Storm Sandy. Within three weeks after the order was issued, the AAA had a fully functioning program in place and had received its first request for mediation. By April 15, 2013, 210 mediators had been trained and qualified, and the first cases were heard. Hearing venues were secured in all 10 downstate counties covered by the program:

Brooklyn (Kings County), Queens, Bronx, Manhattan (New York County), Staten Island (Richmond County), Nassau, Suffolk, Westchester, Orange and Rockland. Through the end of the year, 2,648 mediations had been filed with an average claim value of \$55,325, excluding 19 claims that exceeded \$1 million. The average claim amount of commercial and business interruption claims was \$142,036. The settlement rate in mediation was 63.7%, and the program will continue through 2014.

Types of Claims	# of Cases	Percent of Cases
Non-commercial real property	1,201	45.4
Non-commercial personal property	794	30.0
Business interruption	281	10.6
Commercial real property	246	9.3
Commercial personal property	80	3.0
Other	46	1.7

## STORM SANDY NEW JERSEY

On March 28, 2013, the New Jersey Department of Banking and Insurance selected the AAA as the administrator for its mediation program to handle claims resulting from Storm Sandy damage. A panel of 108 mediators was trained and qualified, and hearings were held in Newark, Somerset, Mays Landing and Monmouth County. Through

December 30, 2013, 753 cases had been filed with average claims of \$104,750. The value of commercial and business interruption claims averaged \$186,791. The overall mediation settlement rate was 67%, and the program is ongoing.

Types of Claims	# of Cases	Percent of Cases
Automobile–Commercial	2	0.3
Automobile–Personal	6	0.8
Homeowners	538	71.3
Commercial	160	21.3
Marine	2	0.3
Flood	26	3.5
Other	19	2.5





**The AAA would like to thank the following individuals and organizations for their support and assistance in connection with the Storm Sandy Mediation Programs:**

ATLANTIC COUNTY COLLEGE

BROOKLYN BOROUGH HALL

DOWLING COLLEGE

GIBBONS LAW FIRM

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SILLER FOUNDATION

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YOUNG ISRAEL OF SCARSDALE

***“THE ENTIRE TEAM... AND THE AAA MEDIATORS WERE PHENOMENAL. THE PROCESS WAS EFFICIENT, PROFESSIONAL AND COURTEOUS. I WAS AMAZED AT HOW QUICKLY MY CLAIM WAS PROCESSED AND MY MEDIATION DATE SCHEDULED...”***

- NEW JERSEY HOMEOWNER

***“OUR MEDIATION SCHEDULE WAS CONSTANTLY COMMUNICATED TO US AND THEY HELPED US ALL ALONG THE WAY. I CAN SAFELY SAY THAT THIS PROCESS WAS THE VERY BEST I HAVE BEEN ASSOCIATED WITH ACROSS THE COUNTRY TO DATE.”***

- INSURANCE ADJUSTER



# AAA/ICDR HEADQUARTERS MOVE AND OPENING OF THE MIDTOWN DISPUTE RESOLUTION CENTER

**“ALONG WITH BUILDING MOMENTUM IN 2013, THE AAA HAD BUILDING MOMENTUM.”**

Along with building momentum in 2013, the AAA had *building* momentum. In the spring, the AAA and ICDR opened a new midtown New York City location with offices and state-of-the-art hearing rooms equipped with the latest technology, designed for cases of all sizes and types. The new location was inaugurated with a gathering that kicked off the 2013 Annual Meeting of the AAA's Board of Directors. One month later, the AAA/ICDR moved

their headquarters to a landmark building in lower Manhattan, where the AAA's New York Insurance Case Management Center office already had relocated. These moves were an important and well-timed upgrade, with the benefits of modernized facilities. In addition, having almost all New York City operations under one roof at headquarters allows for improved collaboration, support, and work flow among staff.



## LARGE, COMPLEX CASE ADMINISTRATION

As previously noted in the Commercial and Construction Divisions' summaries, in 2013, the AAA focused on honing administration quality at both ends of the case administration process—increasing higher-level supervision of large, complex cases, as well as providing an executive council (the Administrative Review Council) to review arbitrator challenges and locale disputes.

Recent examples show how AAA staff experience can lead to creative solutions benefiting the time and cost of arbitration. Some of our offices have successfully convinced contentious parties in large, complex cases to use the Emergency Arbitrator provisions, which are included in the recently amended Commercial Arbitration Rules and International Rules. These Emergency Arbitrators have provided speedy relief for interim disputes and have occasionally served as the arbitrator on the remainder of the case, saving the parties significant time and effort.

Other offices are using “Time-Impact Zones” as a two-pronged approach to expedite administration of cases while retaining a high-level facilitation of complex arbitrations. They focus on controlling the factors that affect timespans from initiation to arbitrator appointment, and from appointment to disposition. Statistics indicate that this approach is successful. Our Denver office, for instance, reduced median time from filing to closing by approximately 50 days! And, satisfaction with case administration increased by 10%.

### REGIONAL OFFICES ADMINISTERING LARGE, COMPLEX B2B CASES





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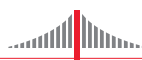
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President's Award for Leadership In Conflict Management  
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2014

Outstanding Director Award  
Presented to Dr. Patricia D. Galloway





## AMERICAN ARBITRATION ASSOCIATION<sup>®</sup>

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As a New York, Not-for-Profit Corporation, the American Arbitration Association mission of providing effective, efficient and economical methods of dispute resolution has continued, unabated, since our founding over 88 years ago. That mission is reflected in the wide variation in the numbers and types of arbitrations and mediations administered by the AAA, and the substantial resources we devoted to developing new or revised arbitration rules covering a number of subject matter areas. As described in this year's Annual Report, the contributions made to our mission included ongoing educational programs, continued investment in our diversity initiatives, and our many training programs, including those that helped train individuals from Ghana and Afghanistan. However, we believe that one of the greatest contributions made by the AAA in 2013 was the administration of the Storm Sandy mediation programs. Because of our long history, knowledge and experience in dispute resolution, the AAA was uniquely qualified to provide mediation services to thousands of parties in New York and New Jersey with insurance claims disputes arising out of Storm Sandy.

In addition, like all organizations looking to the future, the AAA engaged in a number of operational initiatives in 2013 to ensure that we will have an infrastructure sufficient to fulfill our mission for many more decades. The AAA moved its headquarters and some operational offices, and we built new hearing facilities in two locations in New York City. We invested in technology and our on-line presence, and we gave significant time and thought regarding our own employees, including talent development and staffing, so that we can provide parties with the highest quality dispute resolution services.



AMERICAN ARBITRATION ASSOCIATION®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARY

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013 AND 2012

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS  
AMERICAN ARBITRATION ASSOCIATION, INC.

We have audited the accompanying consolidated financial statements of American Arbitration Association, Inc. and Subsidiary (the "Association"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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 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, 2013 and 2012, 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.



New York, New York  
April 29, 2014

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2013 AND 2012

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 3,686,000	\$ 538,000
INVESTMENTS - At Fair Value	99,019,000	97,952,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of \$485,000 in 2013 and \$578,000 in 2012	9,589,000	8,997,000
OTHER RECEIVABLES, Less allowances for uncollectible accounts of \$104,000 in 2013 and \$122,000 in 2012	325,000	1,274,000
PREPAID EXPENSES	2,379,000	2,617,000
INTERNAL-USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	11,812,000	7,915,000
FURNISHINGS, EQUIPMENT, TECHNOLOGY AND LEASEHOLD IMPROVEMENTS - Net	10,710,000	5,141,000
TOTAL ASSETS	<u>\$ 137,520,000</u>	<u>\$ 124,434,000</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 64,682,000	\$ 62,595,000
Accrued postretirement medical costs	6,917,000	8,156,000
Accrued pension liability	2,711,000	7,682,000
Deferred rent	3,921,000	1,043,000
Deferred revenue	2,897,000	1,727,000
Total Liabilities	<u>81,128,000</u>	<u>81,203,000</u>
UNRESTRICTED NET ASSETS	56,392,000	43,231,000
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 137,520,000</u>	<u>\$ 124,434,000</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>OPERATING REVENUES</b>		
Administration fees earned:		
Commercial	\$ 40,879,000	\$ 38,727,000
State insurance	18,073,000	15,253,000
Labor	5,071,000	4,849,000
Elections	4,439,000	3,472,000
Totals	68,462,000	62,301,000
Publications and education	1,510,000	1,887,000
Other operating income	424,000	373,000
Totals	70,396,000	64,561,000
<b>OPERATING EXPENSES</b>		
Administration of tribunals	56,972,000	53,622,000
Elections	4,301,000	3,446,000
Publications and education	1,162,000	2,226,000
General and administration	3,518,000	4,170,000
Loss on impairment of internal-use software development in progress	-	1,402,000
Net loss on write-off of office leases	2,035,000	388,000
Totals	67,988,000	65,254,000
<b>Net Operating Income/(Loss)</b>	2,408,000	(693,000)
<b>NON OPERATING INCOME AND EXPENSES</b>		
Interest and dividends on investments - net of fees	2,251,000	2,852,000
Net realized and unrealized gains on investments	2,891,000	5,047,000
Loss on disposal of assets	(351,000)	(113,000)
<b>CHANGE IN UNRESTRICTED NET ASSETS BEFORE OTHER CHANGES IN NET ASSETS</b>	7,199,000	7,093,000
Pension liability adjustment	5,146,000	814,000
Postretirement medical obligation adjustment	816,000	38,000
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	13,161,000	7,945,000
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	43,231,000	35,286,000
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	\$ 56,392,000	\$ 43,231,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,161,000	\$ 7,945,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,458,000	2,494,000
Bad debt and change in provisions for uncollectible accounts	259,000	301,000
Deferred rent	2,878,000	(863,000)
Net realized and unrealized gains on investments	(2,891,000)	(5,047,000)
Loss on impairment of internal-use software development in progress	-	1,402,000
Loss on write-off of office leases	2,035,000	388,000
Loss on disposal of assets	351,000	113,000
Changes in operating assets and liabilities:		
(Increase)/Decrease in administration fees receivable	(851,000)	88,000
Decrease/(Increase) in other receivables	949,000	(1,051,000)
Decrease/(Increase) in prepaid expenses	238,000	(72,000)
Increase/(Decrease) in accounts payable and accrued expenses	52,000	(3,635,000)
Decrease in accrued postretirement medical costs	(1,239,000)	(351,000)
Decrease in accrued pension liability	(4,971,000)	(1,115,000)
Increase/(Decrease) in deferred revenue	1,170,000	(237,000)
Net cash provided by operating activities	13,599,000	360,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furnishings, equipment, technology and leasehold improvements	(8,389,000)	(3,604,000)
Proceeds from sale of furnishings, equipment, technology and leasehold improvements	11,000	-
Proceeds from sale of investments	41,212,000	49,010,000
Purchase of investments	(39,388,000)	(47,754,000)
Internal use software development and construction in progress	(3,897,000)	(1,214,000)
Net cash used in investing activities	(10,451,000)	(3,562,000)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,148,000	(3,202,000)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	538,000	3,740,000
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 3,686,000	\$ 538,000

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The accompanying consolidated financial statements include the financial position and operating activities of American Arbitration Association, Inc. (“AAA”) and the Subsidiary it controls, American Arbitration Association-ICDR Ltd. All intercompany accounts and transactions have been eliminated in consolidation. As used herein, the “Association” includes American Arbitration Association, Inc. and Subsidiary.

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

***Administration fees:***

The initial filing fee for commercial cases, which are subject to a minimum fee, is billed at the commencement of the dispute resolution process. Over the next 60 days, which is the time period for refund eligibility, a portion of the refundable initial filing 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 2013 and 2012 of \$173,000 and \$129,000, 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 \$1,518,000 and \$1,585,000 as of December 31, 2013 and 2012, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Registration fees for educational programs may be payable in advance prior to an education program event. Deferred education program registration fees of \$14,000 and \$13,000 as of December 31, 2013 and 2012, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

A panel maintenance fee is collected from neutrals serving on the Association’s panel of arbitrators and mediators. The fee is assessed annually on a calendar-year basis. Payments received in advance of the start of the assessment year totaling \$1,192,000 and \$0 as of December 31, 2013 and 2012, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

***Cash and cash equivalents:***

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

***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 \$11,610,000 and \$8,366,000 as of December 31, 2013 and 2012, respectively. The Association places its cash and cash equivalents with creditworthy, high-quality financial institutions. Credit risk with respect to administration fees receivable is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its administration fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

***Investments:***

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

***Furnishings, equipment, technology and leasehold improvements:***

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

***Capitalization of software developed for internal use:***

The Association capitalizes costs incurred for the development of software for internal use. The Association began a project in 2008 to design and develop new case management applications and is currently engaged in several projects related to website upgrades and educational applications. The cost of development will be amortized over the useful lives of the underlying applications, varying from three to 10 years, once the new software is placed in service, which is expected to occur in phases in 2014.

***Use of estimates:***

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED):

***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, 2013 and 2012. The Association's Federal and state income tax returns prior to fiscal year 2010 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

***Fair value of financial instruments:***

The carrying amounts of cash and cash equivalents, administration fees receivable, other receivables, and accounts payable and accrued expenses approximate fair value because of the short-term nature of the items.

***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.

***Reclassifications:***

Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

***Subsequent events:***

The Association has evaluated subsequent events through April 29, 2014, which is the date the consolidated financial statements were available to be issued.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2 - INVESTMENTS:

Investments at December 31, 2013 and 2012 consist of the following:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	\$ 24,016,000	\$ 23,721,000	\$ 18,221,000	\$ 18,054,000
Intermediate Term Bond funds	4,874,000	4,890,000	20,220,000	21,255,000
Inflation-Protected Bond funds	3,125,000	3,332,000	10,573,000	12,548,000
High Yield Bond funds	7,798,000	7,890,000	3,643,000	3,693,000
Emerging Markets Bond funds	3,935,000	3,903,000	3,661,000	4,085,000
International Equities funds	12,687,000	13,838,000	9,383,000	9,813,000
U.S. Equity funds	27,293,000	29,466,000	16,104,000	16,891,000
Emerging Markets Equities funds	5,221,000	5,991,000	5,135,000	5,816,000
Real Estate Investment Trust funds	4,512,000	5,101,000	4,394,000	4,970,000
Cash/Money Market funds	887,000	887,000	827,000	827,000
Totals	\$ 94,348,000	\$ 99,019,000	\$ 92,161,000	\$ 97,952,000

Interest and dividends on investments are reported net of investment management fees and bank charges of \$924,000 and \$892,000 in 2013 and 2012, 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

### NOTE 2 - INVESTMENTS (CONCLUDED):

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, 2013 and 2012.

Financial assets carried at fair value at December 31, 2013 and 2012 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2013 and 2012, 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, 2013 and 2012.

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

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

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

	2013	2012
Furnishings and equipment	\$ 10,976,000	\$ 14,061,000
Software developed for internal use	7,065,000	6,643,000
Leasehold improvements	12,674,000	11,478,000
	<u>30,715,000</u>	<u>32,182,000</u>
Less accumulated depreciation and amortization	(20,005,000)	(27,041,000)
Totals	<u>\$ 10,710,000</u>	<u>\$ 5,141,000</u>

In 2013 and 2012, the Association recognized a net loss of approximately \$351,000 and \$113,000 relating to the disposal of certain assets with original costs totaling \$9,856,000 and \$1,302,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$7,065,000 and \$6,643,000 as of December 31, 2013 and 2012, respectively. Related accumulated amortization as of December 31, 2013 and 2012 was \$5,845,000 and \$5,290,000, respectively.

In-progress internal-use software development costs totaled \$11,573,000 and \$7,521,000 in 2013 and 2012, respectively. When placed into service, these in-progress software development costs will be included in capital assets and amortized over a period of three to 10 years. Software development costs in progress, for various websites and web applications, totaling \$292,000 and \$1,737,000 were placed into service in 2013 and 2012, respectively.

The Association recognized a loss relating to the impairment of internal-use software development in progress of approximately \$1,402,000 in 2012. This amount represents the portion of software development costs previously capitalized between 2009 and 2011 that were no longer expected to provide substantive value to the capabilities, functions, or uses of the software due to changes in the technical design and architecture of the underlying applications being developed. No such impairment loss was recorded in 2013. The in-progress internal-use software development assets totaling \$11,573,000 and \$7,521,000 at December 31, 2013 and 2012, respectively, have accordingly been reduced by the amount of the impairment.

Additionally, the Association had construction-in-progress totaling approximately \$239,000 in 2013. These costs are primarily associated with leasehold improvements for new office leases which will be placed in service in 2014. When placed in service, the construction-in-progress costs are included in capital assets and amortized over the lives of the underlying leases. Construction-in-progress costs totaling \$394,000 in 2012 were placed in service in 2013.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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, 2013 and 2012 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, 2014 are zero; therefore the Association expects to make no contributions to the plan during 2014.

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 two 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, 2013 and in the aggregate for the five years beginning in 2019 are as follows:

January 1,	Pension Benefits	Healthcare Benefits
2014	\$ 2,309,000	\$ 323,000
2015	2,293,000	324,000
2016	2,352,000	336,000
2017	2,364,000	361,000
2018	2,407,000	375,000
Years 2019 to 2023	12,082,000	2,177,000

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS  
(CONTINUED):

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, 2013 and 2012:

	Pension Benefits		Healthcare Benefits	
	2013	2012	2013	2012
Benefit obligation at December 31	\$ 38,231,000	\$ 41,886,000	\$ 6,917,000	\$ 8,156,000
Fair value of plan assets at December 31	35,520,000	34,204,000	-	-
Net unfunded status of the plan	<u>\$ (2,711,000)</u>	<u>\$ (7,682,000)</u>	<u>\$ (6,917,000)</u>	<u>\$ (8,156,000)</u>
Amounts recognized in the consolidated balance sheets consists of the following:				
Current liabilities	\$ -	\$ -	\$ 323,000	\$ 365,000
Noncurrent liabilities	2,711,000	7,682,000	6,594,000	7,791,000
Totals	<u>\$ 2,711,000</u>	<u>\$ 7,682,000</u>	<u>\$ 6,917,000</u>	<u>\$ 8,156,000</u>
Components of net periodic benefit cost and other amounts recognized in other changes in net assets				
Net periodic benefit cost:				
Service Cost	\$ -	\$ -	\$ 161,000	\$ 170,000
Interest Cost	1,529,000	1,761,000	319,000	375,000
Expected return on plan assets	(2,512,000)	(2,300,000)	-	-
Amortization of prior service cost	-	-	(432,000)	(432,000)
Amortization of net actuarial loss	1,158,000	1,238,000	-	15,000
Net Periodic benefit cost at December 31	<u>\$ 175,000</u>	<u>\$ 699,000</u>	<u>\$ 48,000</u>	<u>\$ 128,000</u>
Unrecognized net loss/(gain) included in net assets	\$ 11,087,000	\$ 16,233,000	\$ (1,628,000)	\$ (812,000)
Employer's contribution	-	1,000,000	471,000	441,000
Plan participants' contributions	-	-	48,000	48,000
Net periodic benefit costs	175,000	699,000	48,000	128,000
Subsidies received	-	-	41,000	38,000
Benefit payments	(2,153,000)	(2,041,000)	(560,000)	(526,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Prior service credit	-	-	(979,000)	(1,411,000)
Net actuarial (gain)/loss	(5,146,000)	(814,000)	(649,000)	599,000
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	4.50%	3.75%	4.75%	4.00%
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	3.75%	4.50%	4.00%	4.50%
Expected return on plan assets	7.50%	7.50%	N/A	N/A

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS  
(CONTINUED):

	Pension Benefits		Healthcare Benefits	
	2013	2012	2013	2012
Unrecognized actuarial (gain) or loss:				
Beginning of year	\$ 16,233,000	\$ 17,047,000	\$ (812,000)	\$ (774,000)
Actual return on plan assets	(3,470,000)	(3,657,000)	-	-
Expected return on plan assets	2,512,000	2,300,000	-	-
Actuarial (gain) or loss	(3,030,000)	1,781,000	(1,248,000)	(455,000)
Amortization of net gain or (loss)	(1,158,000)	(1,238,000)	432,000	417,000
End of year	<u>\$ 11,087,000</u>	<u>\$ 16,233,000</u>	<u>\$ (1,628,000)</u>	<u>\$ (812,000)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year is \$711,000. The estimated prior service credit for the postretirement plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is \$432,000.

For measurement purposes, an 8.00% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2013. The rate was assumed to decrease gradually to 5.00% until 2019 and remain at that level thereafter.

The target allocations of pension assets are outlined below:

Plan assets:	Target Allocation	Percentage of Plan Assets at December 31,	
		2013	2012
Equity securities	40-70%	58%	51%
Fixed income	30-60%	42%	49%
Totals		<u>100%</u>	<u>100%</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS  
(CONCLUDED):

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

2013 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	\$ 14,899,000	-	-	\$ 14,899,000
U.S. Equities Mutual Funds	13,627,000	-	-	13,627,000
International Equities Mutual Funds	6,994,000	-	-	6,994,000
Totals	<u>\$ 35,520,000</u>	<u>-</u>	<u>-</u>	<u>\$ 35,520,000</u>

2012 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	\$ 16,811,000	\$ -	-	\$ 16,811,000
U.S. Equities Mutual Funds	9,338,000	1,768,000	-	11,106,000
International Equities Mutual Funds	6,287,000	-	-	6,287,000
Totals	<u>\$ 32,436,000</u>	<u>\$ 1,768,000</u>	<u>-</u>	<u>\$ 34,204,000</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2013 and 2012.

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. A portion of U.S. Equities Mutual Funds in 2012 was based on a modeled bid evaluation pricing estimate for comparable instruments (Level 2).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 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 2014 and 2028. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations amounted to \$10,570,000 and \$9,319,000, for the years ended December 31, 2013 and 2012, respectively. In addition, the Association leases certain furniture, computer equipment, and office equipment under various operating leases, all of which expire over the next one to five 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, 2013 and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 8,037,000
2015	7,228,000
2016	6,652,000
2017	5,289,000
2018	4,171,000
Thereafter	<u>34,400,000</u>
Total	<u>\$ 65,777,000</u>

Due to the consolidation of certain offices and the transfer of case management of certain cases to executives in regional offices, the Association recorded expenses of \$2,035,000 and \$388,000 for 2013 and 2012, respectively, which accounted for future lease payments and related costs for those leased offices, offset by expected future net sublease income. These expenses are included in the net loss on write-off of office leases in the accompanying consolidated statements of operations and changes in net assets. The related liability amounts of \$2,124,000 and \$388,000 for 2013 and 2012, respectively, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets at December 31, 2013 and 2012, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONCLUDED):

***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, 2013 and 2012, advance deposits collected totaled \$56,109,000 and \$55,618,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2013, pursuant to various office space leases, the Association has letter of credit agreements totaling \$2,815,000. Subsequent to year end, the Association entered into an additional letter of credit agreement for \$125,000. 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 2013 and 2012.









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2013 ANNUAL REPORT  
& FINANCIAL STATEMENTS

SAN FRANCISCO, CA  
MAY 15, 2014