



AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION®

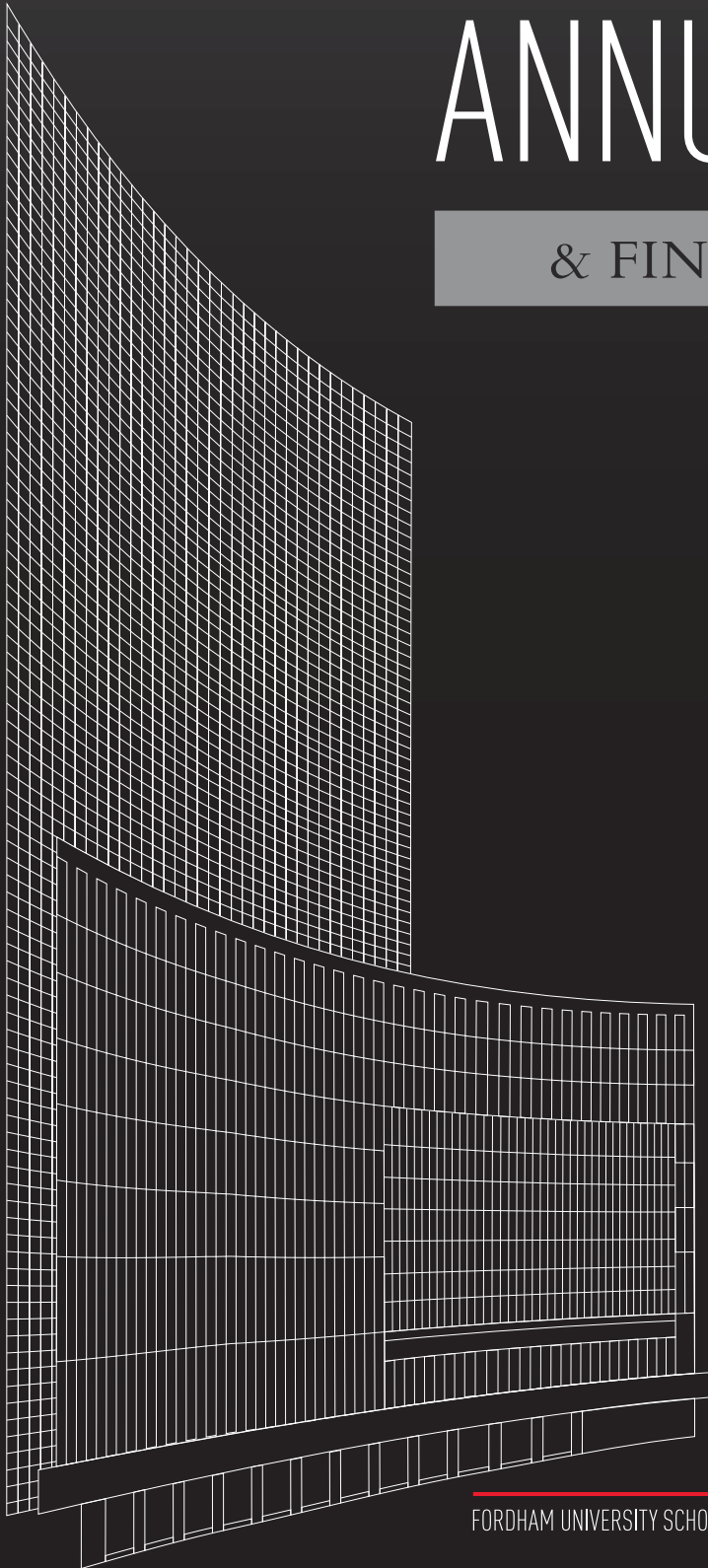
Mediation.org®

2014

ANNUAL REPORT

& FINANCIAL STATEMENTS

MAY 7, 2015
NEW YORK, NY





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OUR SHARED MISSION

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


OUR SHARED VISION

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

OUR SHARED COMMITMENT TO DIVERSITY

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

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



OUR SHARED *Values*

INTEGRITY

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

CONFLICT MANAGEMENT

We practice the principals 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



“EVERY CORNER OF OUR ORGANIZATION WAS INVOLVED IN IMPLEMENTING THESE INNOVATIONS AND OUR CLIENTS WERE THE BENEFICIARIES.”

—INDIA JOHNSON
PRESIDENT & CEO

2014 was an exciting year for the American Arbitration Association and the International Centre for Dispute Resolution. New technologies, new Rules, new fee schedules and new services rolled out all year long. Every corner of our organization was involved in implementing these innovations and our clients were the beneficiaries.

In the Spring, we launched our new overall business platform, called PRISM internally and called *WebFile* externally. For the first time we have an internet-based case management platform rather than a platform connected through data lines and servers all over the country. The AAA itself owns the “cloud” of servers on which the new software application runs, which are located in New Jersey but with a backup disaster recovery site in Dallas, Texas.

In the Fall, we moved a very special insurance claims program, the New York State No-Fault Insurance Conciliation and Arbitration cases, to something even more unique for us—a cloud-based program. Along the way, we upgraded our financial software systems as well.

The ICDR issued enhanced international arbitration rules in June, and in November we lowered the front-end filing fees on international, commercial, construction and executive employment cases. These lower filing fees will make it easier to file and get an arbitration started through the AAA or ICDR. We also saw the impact of a full year of business mediation activity under the new mediation section (R-9) in the Commercial Arbitration Rules, the oldest and most widely used Rules in our portfolio.

We also launched a “mock arbitration” type of service with a partner firm, DecisionQuest, headquartered in California. Using DecisionQuest’s online mock arbitration system, a party can select real AAA arbitrators from a specialized Arbitrator Search platform to review case information and give answers to questions about the case. This kind of research can also help parties settle cases through better case assessment by the lawyer and the client.

With our friends at Fordham Law School, we began months of preparation for our unique education and knowledge leadership event: *Society, Commerce and Dispute Resolution: Goals for Justice and Trade*. A number of our Directors, as well as Fordham faculty members and members



INDIA JOHNSON

*President & CEO
American Arbitration Association*

of the bench and bar from the United States, Northern Ireland and National American Indian Courts, will examine access to justice challenges as well as the problems companies, organizations, governments and citizens face while resolving conflict as global trade increases. Through the generosity of former Dean John Feerick (former AAA Board Chair) and Fordham University Law School, we will be going “back to school” after our Annual Meeting to discuss these important societal and commercial issues and how alternative dispute resolution can benefit.

We are especially grateful to Dean Feerick and Fordham University for collaborating with us on *Society, Commerce and Dispute Resolution: Goals for Justice and Trade* and for letting us convene the Annual Meeting of the Board of Directors of the AAA at Fordham’s new Law School campus here in New York.

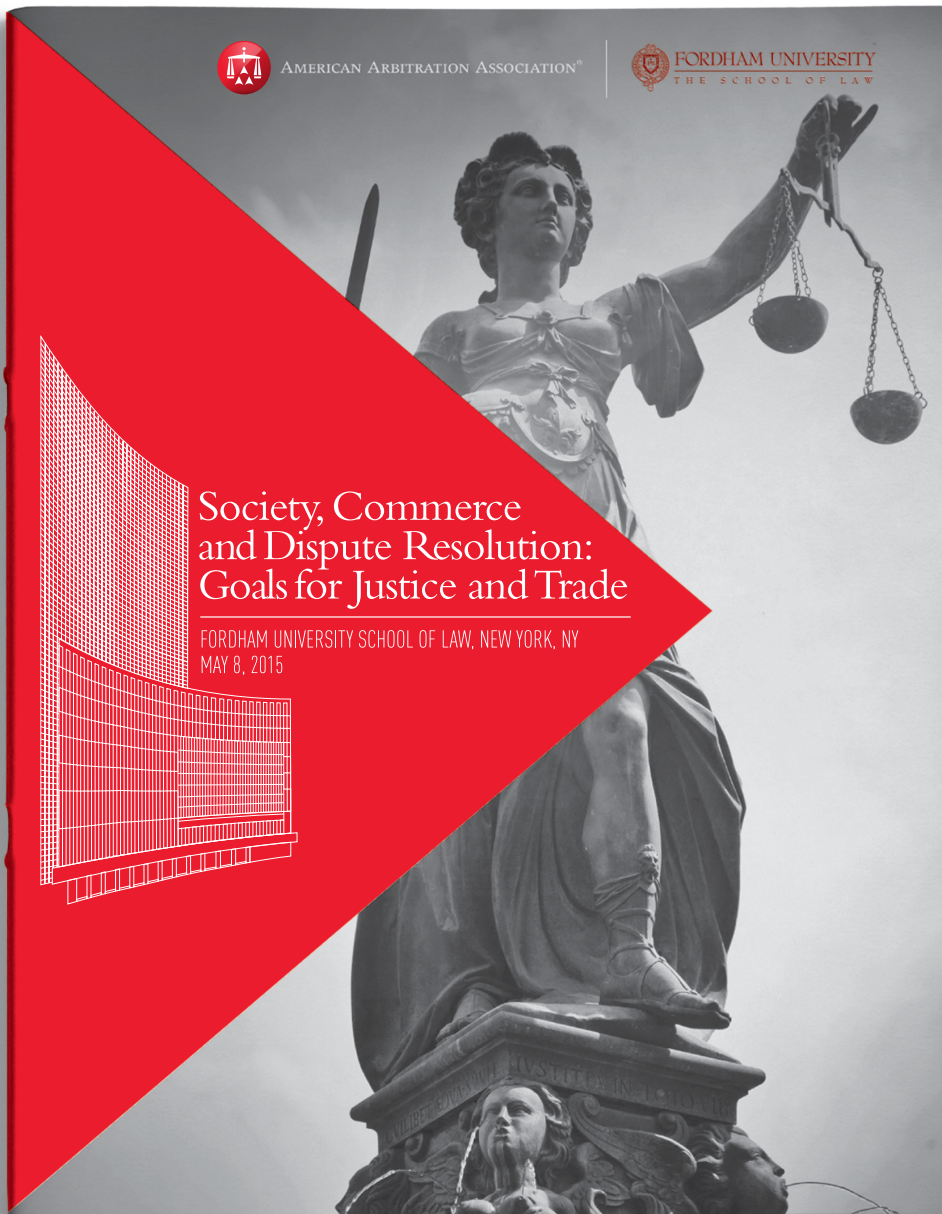
Following, you will find many more projects and innovations—many of which involved board members helping us every step of the way. My thanks to the Directors and to the staff of the Association for making all of these good things happen in 2014!

India Johnson

—INDIA JOHNSON, PRESIDENT & CEO

SOCIETY, COMMERCE AND DISPUTE RESOLUTION: GOALS FOR JUSTICE AND TRADE

May 8, 2015



This year, the AAA, ICDR and Fordham University School of Law are hosting a conference titled *Society, Commerce and Dispute Resolution: Goals for Justice and Trade* that has been timed to coincide with the AAA's Annual Meeting. A number of members of the AAA's Board of Directors are featured as speakers at the Conference, in addition to a full range of industry experts, legal professionals, corporate representatives and academics.

The Conference will examine how commerce drives economic development for both

developed and undeveloped countries. At the same time, when global commerce does result in conflict, individuals, governments and companies may be faced with limited access to courts of the kind that are universally deserved. Some courts struggle for legitimacy, or they are recognized as competent but operate with limited resources or with costs that can be excessive to many who would otherwise seek to vindicate their rights. In these circumstances, some parties are denied access to justice. The Conference will also explore potential solutions to these problems.





DIVISIONS



COMMERCIAL DIVISION

*CONSTRUCTION, REAL ESTATE
AND ENVIRONMENTAL DIVISION*

*LABOR, EMPLOYMENT
AND ELECTIONS DIVISION*

INTERNATIONAL DIVISION

*NEW YORK NO-FAULT AUTOMOBILE
INSURANCE DIVISION*

REDUCING FILING COSTS

In keeping with its efforts to increase flexibility, and to better promote arbitration's promise as a cost-effective litigation alternative, the AAA rolled out new fee schedules on November 1, 2014, that reduce upfront filing fees for Commercial, International, Construction and Executive Employment arbitrations. Parties who settle their arbitrations early will see a significant reduction in forum costs.

COMMERCIAL DIVISION

In 2014, the AAA partnered with Decision-Quest, one of the nation's leading litigation consulting firms, to create CaseXplorer® Arbitration™, a cost-effective online mock arbitration process. CaseXplorer Arbitration enables parties to receive an objective evaluation of the strengths and weaknesses of their case from experienced arbitrators not associated with their case. The online tool, which can be utilized before arbitration has begun, while the arbitration is pending, and by one or both parties to a dispute, can be helpful to focus strategy, clarify expectations, or even facilitate settlement. The user selects a panel of three or five evaluative arbitrators using a search tool that allows searches by keyword, expertise and locale. The program then provides the arbitrators with written fact patterns, legal arguments, documents and questions. Within three to four days, the user receives a written report containing each arbitrator's evaluation of the case.

The new mediation step (Rule 9) added to the AAA's Commercial Arbitration Rules in 2013 resulted in many more mediations administered by the AAA in 2014. The Rule requires parties

with claims in excess of \$75,000 to mediate their dispute at some point during the arbitration proceedings—while also providing parties with the ability to opt out of the mediation process altogether. The number of commercial cases utilizing the added mediation step increased by 51% in 2014 over the prior year's figures.

Revised Healthcare Payor Provider Arbitration Rules were launched on November 1, 2014, with amendments made to provide a cost-effective and streamlined arbitration process. The revisions also more effectively address reimbursement disputes between insurance companies and providers of healthcare services.

In 2014, the AAA further augmented the role of its Administrative Review Council by rolling out Arbitrator Challenge Review Procedures for Non-Administered Arbitrations. The Council was established in 2013 and imbued 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 important issues, including challenges to arbitrators, locale determinations,

and whether the AAA's filing requirements have been satisfied. With this latest set of procedures, the Council can now review arbitrator challenges on non-AAA-administered cases submitted by ad hoc arbitration users.

Ensuring that staff is highly skilled and well trained has been a priority of the Association. In 2014, the Commercial and Construction Divisions—in partnership with the AAA Education Services Department—initiated a professional development program for case management staff that made available to them a wide range of ADR-related educational webinars. Topics ranged from basic to complex, and included offerings such as “Confronting Arbitrability and Jurisdiction in Arbitration,” “Consolidation and Joinder in Construction Arbitration,” “Developments in Arbitration Law: Vacatur, Sanctions and Arbitrator Authority,” among many others. Case management staff took advantage of this education opportunity by participating in more than 600 combined hours of training during the course of the year.

51% INCREASE IN AAA COMMERCIAL CASE MEDIATIONS AFTER THE AAA COMMERCIAL ARBITRATION RULES WERE REVISED TO INCLUDE A MEDIATION STEP



CONSTRUCTION, REAL ESTATE AND ENVIRONMENTAL DIVISION

Responding to construction industry needs and ongoing initiatives for effective dispute resolution, the AAA worked with its National Construction Dispute Resolution Committee (NCDRC) to develop and launch supplemental arbitration procedures to provide an option for a cost- and time-effective construction arbitration process. The Supplementary Rules for Fixed Time & Cost Construction Arbitration took effect on June 15, 2014. They enable the parties to calculate in advance the maximum time to complete an arbitration, the number of hearing days, and arbitrator costs. For example, for cases with claims in the \$250,000 to \$500,000 range, the Rules prescribe a maximum of 180 days from filing to award, with no more than three hearing days. Arbitrator compensation for hearing days and a maximum of 12 hours of study time are capped at \$275 per hour. AAA administrative fees are fixed at \$5,000. The Supplementary Rules also encourage client participation by requiring that the parties provide contact information for a “designated employee” such as a senior executive or in-house counsel, and that the AAA and/or arbitrator include such designated employees on all case communications.

Also, the AAA, working alongside lawyers and construction industry professionals who specialize in construction mega projects, began work toward establishing a unique Mega Project Construction Panel of top construction arbitrators and mediators as rated by a committee of advocates and in-house counsel. Executive oversight of these disputes is provided by any of the four construction division vice presidents.

THE AAA'S FIXED TIME AND COST CONSTRUCTION RULES ENABLE THE PARTIES TO CALCULATE IN ADVANCE THE MAXIMUM TIME TO COMPLETE AN ARBITRATION, THE NUMBER OF HEARING DAYS, AND ARBITRATOR COSTS.

LABOR, EMPLOYMENT AND ELECTIONS DIVISION

In 2014, the Labor, Employment and Elections Division experienced 42% overall growth in employment case filings, the bulk of it from employment arbitration plan cases. In addition, there was an increase in the number of employment-related “group” filings, involving demands for arbitration filed by different claimants, but involving the same respondent, claims, and relief sought. These group filings range in size from 10 to 3,000 cases per group and were scattered throughout various locations countrywide. They were subsequently centralized to provide streamlined service and improve their overall management.

The Elections Division administered several high-profile ratification elections in 2014 following on the heels of contract negotiations between the City of New York and several of its unions. The elections included the Transport Workers Union Local 100 contract ratification election with over 25,000 voters; the United Federation of Teachers (UFT) contract, which required the scanning and

tabulation of approximately 92,000 ballots; and the District Council 37 AFSCME AFL-CIO contract ratification by its 90,000 members. Also, the Wisconsin Employment Commission renewed its contract with the AAA to administer elections for hundreds of unions throughout the state. The AAA was also called upon to conduct the SEIU United Health Care Workers officer election in Oakland, California.

Increasing diversity on both the Labor and Employment panels continued to be a priority. Of the 74 new Labor and Employment panelists added last year, 39% were either women or minorities.

The Labor, Employment and Elections Division in 2014 conducted a large number of in-person educational programs and webinars in areas ranging from just cause, ethics, case preparation, employment arbitration issues, advocacy, and other topics.

42%

OVERALL GROWTH IN EMPLOYMENT CASE FILINGS IN 2014

92,000

TOTAL BALLOTS SCANNED IN THE 2014 UNITED FEDERATION OF TEACHERS CONTRACT

39%

OF LABOR AND EMPLOYMENT PANELISTS ADDED IN 2014 WERE MINORITIES OR WOMEN

CONSUMER ADR

On September 1, 2014, the Consumer Arbitration Rules were released, comprising the first stand-alone set of rules developed specifically for the arbitration of disputes arising from consumer agreements. Also in September, the Consumer Clause Registry was established as an online, publicly accessible database of businesses that have submitted their AAA consumer arbitration clauses for review, and which have been determined to meet the standard set forth in the AAA’s Consumer Due Process Protocol. Businesses register their consumer clauses online, pay a review fee, and the AAA then reviews each clause for compliance with the

Protocol. Last year, 188 businesses registered clauses with the Registry.

Late in the year, the *Pro Se* Administration Team was created to handle cases filed by *pro se* claimants. In December, the Team began to accept cases from the Commercial and Construction Divisions, the Employment Division, and Consumer ADR Operations. The *Pro Se* Team is developing specialized expertise to work with unrepresented parties and offers case management services appropriately tailored to non-attorney parties who choose to represent themselves.



On June 1, 2014, the ICDR issued revisions to the International Arbitration Rules.

Highlights

Highlights of the Rules changes include a unique, innovative procedure for consolidating multiple, related disputes; expedited procedures that are mandatory for small matters but crafted to apply to larger disputes if the parties agree; a new rule suggesting the use of mediation; a more explicit description of the ICDR's list method of appointing arbitrators and a requirement for arbitrators to declare their impartiality; and new case management tools to avoid unnecessary delay and expense.

Primary Purpose

The primary purpose of the International Rules enhancement was to achieve the highest level of process efficiency, as well as further conform the ICDR's rules to best international practices. The changes, however, include innovations unique to the ICDR, such as the appointment of a consolidation arbitrator to determine whether cases should be consolidated. Other significant revisions include the addition of international expedited procedures; improvement in the exchange of information process and express exclusion of

U.S. litigation procedures for discovery; and a new Notice of Appointment requirement.

ICDR Canada

In 2014, the ICDR launched the International Centre for Dispute Resolution Canada (ICDR Canada), which provides dispute resolution services for Canadian domestic disputes. Operating under the auspices of the ICDR, ICDR Canada provides full administrative services through dedicated New York-based ICDR case counsel bi-lingual in both English and French. A stand-alone set of ICDR Canada Rules was drafted to apply specifically to Canadian domestic disputes, and parties have access to an expanded pool of neutrals across Canada. ICDR Canada's administrative services include assisting in the appointment of mediators and arbitrators, managing case financials, arranging hearings, and providing users with information on dispute resolution options, including mediation.

New Offices

Planning was completed for the opening of two new ICDR offices, in Miami and Houston, staffed

by a case director in each office. The Miami office provides case management services to parties and clients from throughout the world with a particular focus on the Southeast United States, as well as Central and South America and the Caribbean. The services it provides span the following case practice areas: Commercial, Construction, Intellectual Property, and others. The Houston office provides case management services to parties and clients from throughout the world with a particular focus on the South Central United States and cross-border activities with Mexico pertaining to the energy sector.

EAL

The ICDR also revamped and hosted the website of the Energy Arbitrators List (EAL), an initiative of national oil companies and the energy industry. The EAL is an online, word-searchable list of arbitrators with demonstrated experience in deciding international energy disputes. It is the most comprehensive database of its type and allows users to search for arbitrators with experience in 13 categories.

THE PRIMARY PURPOSE OF THE INTERNATIONAL RULES ENHANCEMENT WAS TO ACHIEVE THE HIGHEST LEVEL OF PROCESS EFFICIENCY, AS WELL AS FURTHER CONFORM THE ICDR'S RULES TO BEST INTERNATIONAL PRACTICES.





In 2014, Mediation.org contributed to the increase in mediations by providing internal staff training to facilitate mediations on AAA arbitration cases. Presentations at 20 distinct ADR or business conferences, six basic mediation skills five-day training programs, three advanced one-day training programs, and two industry-specific one-day skills programs were offered in multiple locations around the country. A significant initiative was the development of a “blue ribbon” Master Mediator Panel for launch in 2015 to mediate the AAA’s large, complex cases. Equally as important, Mediation.org partnered with the AAA’s Diversity Committee to elevate recruitment of qualified women and minority mediation panelists for emerging mediation caseloads. It also continued to promote diverse panelists in programs and publications; supported the Diversity Committee in hosting successful Higginbotham Fellows training, as well as trained and mentored the Fellows in both arbitration and mediation practice skills; partnered with the Publications Department to produce a mediation focus issue of the *Dispute Resolution Journal*; developed and delivered three ADR diversity-specific presentations before ADR groups and local minority bar associations; among many other activities and initiatives.

*MEDIATION.ORG
PROVIDED
APPROXIMATELY
3,600 HOURS
OF BASIC
MEDIATION
SKILLS TRAINING
PROGRAMS.*

STATE INSURANCE CASELOADS

Continuing the trend of past years, 2014 saw record numbers of filings of New York No-Fault automobile insurance cases, with over 180,000 new cases filed. To more efficiently manage these cases, the AAA launched a new cloud-based technology platform called “ADR Center, powered by Modria.” Modria is a California-based ADR technology firm. The transition to this new application required migrating millions of pieces of information and documents from the AAA’s existing case system to the new system. The end result is virtually “paperless” case management; even the Award is dispatched online after the arbitrator enters it into the system and authorizes it.

In Minnesota, staff worked closely with the No-Fault Standing Committee to review and revise the No-Fault Rules, while significant steps were taken toward paperless administration by utilizing electronic transmissions on 80% of administrative tasks.

Last year, the AAA continued to manage mediation programs to help settle certain claim disputes arising from Storm Sandy between insurers and policyholders in New York and New Jersey. This was part of the ongoing partnership between the AAA and state agencies to administer natural disaster-related and insurance-industry dispute resolution claims programs. There were 541 cases filed for the year.

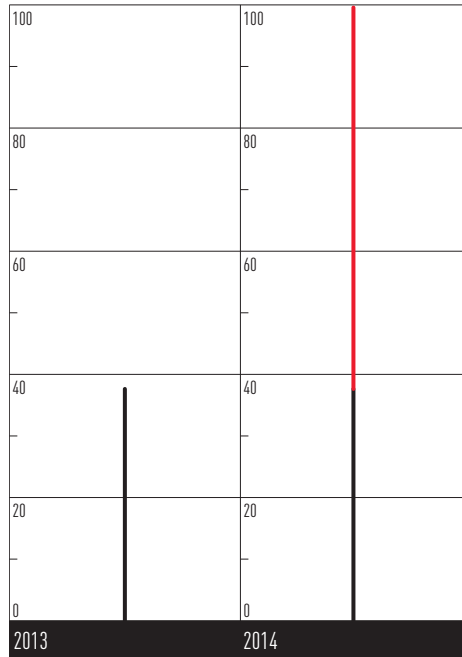
*OVER
180,000*

*NEW YORK NO-FAULT
AUTOMOBILE INSURANCE CASES
FILED IN 2014*

AAA EDUCATION SERVICES / PUBLICATIONS

During 2014, AAA Education Services successfully completed its transition from a traditional in-person training model to web-based/online education programs. The department developed and conducted 50 live webinars and also offered 75 pre-recorded webinars through the AAA’s website. The total number of 2014 education and training in-person events, live and recorded webinars, online self-paced studies, and conferences was 168, an increase of 66% over 2013 figures. Total program registrations correspondingly increased from 5,542 in 2013 to 6,468 in 2014, an increase of 16.7%.

Fifteen AAA Board members participated as faculty for AAA educational programs. Basic arbitrator “Core” training was administered to 201 arbitrators new to the Panel in 2014, an increase of 42 arbitrators over the number trained the year before.



INCREASE IN EDUCATION PROGRAMS IN 2014

66% INCREASE

IN 2014

EDUCATION

AND

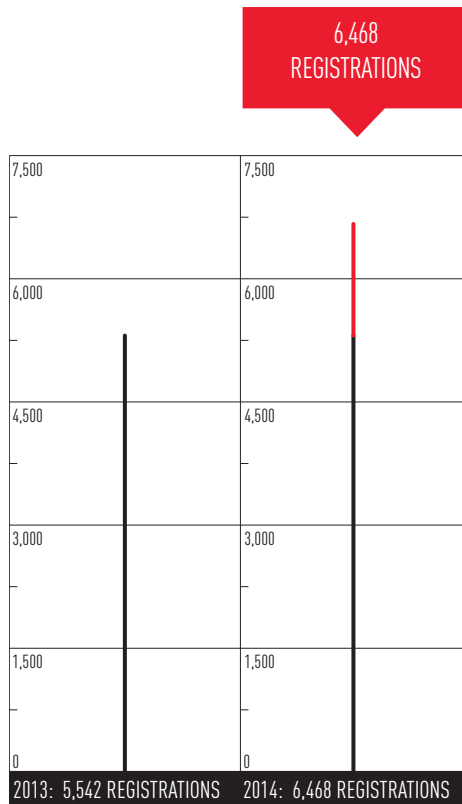
TRAINING

EVENTS

“Fifteen AAA Board members participated as faculty for AAA educational programs.”

To support the increase in the number of online programs and increase the possibility of having online courses approved for Continuing Legal Education (CLE) credit, Education Services invested in technology that allows it to enhance its online courses with video and audio elements that provide a more robust learning experience. Subsequently, the AAA partnered with Westlaw to have them largely assume responsibility for processing CLE for AAA programs.

Publications continued its support of Association initiatives by publishing *Dispute Resolution Journal* focus issues on mediation and health care. It also partnered with Juris Publishers to create an online archive of *Dispute Resolution Journal* past issues dating from 1986 to the present as a resource for AAA staff and to promote sales of *Journal* new subscriptions. The *Journal* also partnered with the Cornell Scheinman Institute to offer a regular feature—“Scheinman Scholars”—that highlights ADR articles written by Scheinman Institute graduate students.



INCREASE IN PROGRAM REGISTRATIONS IN 2014

16.7% INCREASE

IN 2014

PROGRAM

REGISTRATIONS

PRISM

On April 1, 2014, the AAA launched PRISM, its core case management platform for staff, customers and neutrals. More than 125,000 cases and 2.5 million documents were converted from the old system to PRISM. Since launch, tens of thousands of cases have been successfully managed and numerous new caseloads and services have been added without the need for additional development.

In addition, through PRISM's task management process, we are collecting data that will support analysis of case management practices and trends. As with any software platform, there is an ongoing effort to improve PRISM with scheduled rollouts of enhancements and new features.

2.5 MILLION

DOCUMENTS WERE CONVERTED
FROM THE OLD SYSTEM TO PRISM

DIVERSITY

In 2014, the AAA continued to focus on diversifying the AAA Roster of Arbitrators and Mediators. In order to provide parties with a broad choice of neutrals, the AAA is committed to have a diverse roster of arbitrators and mediators. Each of the AAA's divisions actively recruits women and minority candidates who meet the criteria established for our panels. Of the 306 panelists added to the AAA Roster in 2014, 25% are women and 31% are women or minorities.

The AAA also developed programming in its case management system to enable us to provide to parties arbitrator lists with at least 20% diversity where there are diverse neutrals who meet the criteria specified by the parties and the arbitration agreement. The programming that promotes diverse lists was a result of our work with an advisory committee of the AAA's Board of Directors that was tasked with identifying ways that the AAA could have an impact on diversity in the ADR field. This programming is a method by which we can improve the way we list diverse neutrals that meet the parties' requirements and also identify potential caseloads and regions for which we need to recruit diverse neutrals.

In 2014, the AAA Higginbotham Fellows Program entered its sixth year. The Program was

created in 2009 to provide training, networking and mentoring to up-and-coming diverse ADR practitioners. Fourteen Fellows, with backgrounds and practices in such areas as labor, employment, commercial and international were selected from around the United States. The Fellows are exceptional among their peers and were selected for the promise that they have demonstrated to become future ADR leaders.

The AAA Higginbotham Fellows Program continues to exceed expectations with past Fellows making gains in their ADR careers. To date, 12 Fellows have successfully advanced to the AAA Roster of Neutrals. All of them, with the exception of recent inductees, have been listed on numerous arbitrator and mediator lists provided to the parties in the short period of time that they have been on the panel, and nearly all have been appointed to arbitrations and mediations administered by the AAA. The AAA Diversity Committee also continues to build coalitions with national, minority and local bar associations and law schools to provide training and create opportunities for diverse practitioners. These groups include the American Bar Association, the National Bar Association, the New York City Bar Association, the New York State Bar Association, Fordham Law School, the Minority Corporate Counsel Association, and other organizations around the country.

25%

OF ARBITRATORS AND MEDIATORS ADDED
IN 2014 WERE WOMEN

31%

OF ARBITRATORS AND MEDIATORS ADDED
IN 2014 WERE WOMEN OR MINORITIES

*EACH OF THE AAA'S DIVISIONS ACTIVELY
RECRUITS WOMEN AND MINORITY
CANDIDATES WHO MEET THE CRITERIA
ESTABLISHED FOR OUR PANELS.*





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AMERICAN ARBITRATION ASSOCIATION®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARY

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, 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, 2014 and 2013, 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, 2015

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
CASH AND CASH EQUIVALENTS	\$ 6,946,000	\$ 3,686,000
INVESTMENTS - At Fair Value	97,967,000	99,019,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of \$685,000 in 2014 and \$485,000 in 2013	13,287,000	9,589,000
OTHER RECEIVABLES, Less allowances for uncollectible accounts of \$87,000 in 2014 and \$104,000 in 2013	246,000	325,000
PREPAID EXPENSES	2,917,000	2,379,000
INTERNAL-USE SOFTWARE DEVELOPMENT & CONSTRUCTION IN PROGRESS	154,000	11,812,000
FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS - Net	22,472,000	10,710,000
TOTAL ASSETS	\$ 143,989,000	\$ 137,520,000
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 64,974,000	\$ 64,682,000
Accrued postretirement medical costs	9,942,000	6,917,000
Accrued pension liability	10,133,000	2,711,000
Deferred rent	4,159,000	3,921,000
Deferred revenue	3,805,000	2,897,000
Total Liabilities	93,013,000	81,128,000
Commitments and contingencies	-	-
UNRESTRICTED NET ASSETS	50,976,000	56,392,000
TOTAL LIABILITIES AND NET ASSETS	\$ 143,989,000	\$ 137,520,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$ 39,854,000	\$ 40,879,000
State insurance	18,088,000	18,073,000
Labor	4,975,000	5,071,000
Elections	3,836,000	4,439,000
Totals	<u>66,753,000</u>	<u>68,462,000</u>
Publications and education	1,736,000	1,510,000
Other operating income	662,000	424,000
Totals	<u>69,151,000</u>	<u>70,396,000</u>
OPERATING EXPENSES		
Administration of tribunals	58,995,000	56,972,000
Elections	3,500,000	4,301,000
Publications and education	1,131,000	1,162,000
General and administration	3,699,000	3,518,000
Net (gain)/loss on disposal of office leases	(830,000)	2,035,000
Totals	<u>66,495,000</u>	<u>67,988,000</u>
Net Operating Income	2,656,000	2,408,000
NON OPERATING INCOME AND EXPENSES		
Interest and dividends on investments - net of fees	3,103,000	2,251,000
Net realized and unrealized (losses)/gains on investments	(193,000)	2,891,000
Loss on disposal of assets	(1,000)	(351,000)
CHANGES IN UNRESTRICTED NET ASSETS BEFORE CHANGES IN NET ASSETS	<u>5,565,000</u>	<u>7,199,000</u>
Pension liability adjustment	(7,620,000)	5,146,000
Postretirement medical obligation adjustment	(3,361,000)	816,000
CHANGES IN UNRESTRICTED NET ASSETS	(5,416,000)	13,161,000
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>56,392,000</u>	<u>43,231,000</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 50,976,000</u>	<u>\$ 56,392,000</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (5,416,000)	\$ 13,161,000
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,565,000	2,458,000
Bad debt and change in provisions for uncollectible accounts	938,000	259,000
Deferred rent	238,000	2,878,000
Net realized and unrealized (gains)/losses on investments	193,000	(2,891,000)
(Gain) /Loss on office lease disposals	(830,000)	2,035,000
Loss on disposal of assets	1,000	351,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(4,619,000)	(851,000)
Decrease in other receivables	62,000	949,000
(Increase)/Decrease in prepaid expenses	(538,000)	238,000
Increase in accounts payable and accrued expenses	1,122,000	52,000
Increase/(Decrease) in accrued postretirement medical costs	3,025,000	(1,239,000)
Increase/(Decrease) in accrued pension liability	7,422,000	(4,971,000)
Increase in deferred revenue	908,000	1,170,000
Net cash provided by operating activities	6,071,000	13,599,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(3,516,000)	(8,389,000)
Proceeds from sale of furnishings, equipment, technology and leasehold improvements	-	11,000
Proceeds from sale of investments	10,113,000	41,212,000
Purchase of investments	(9,254,000)	(39,388,000)
Internal use software development and construction in progress	(154,000)	(3,897,000)
Net cash used in investing activities	(2,811,000)	(10,451,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,260,000	3,148,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,686,000	538,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 6,946,000	\$ 3,686,000

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 2014 and 2013 of \$165,000 and \$173,000, 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 \$2,260,000 and \$1,518,000 as of December 31, 2014 and 2013, respectively, is 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 \$153,000 and \$14,000 as of December 31, 2014 and 2013, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

A panel maintenance fee is collected from those 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 \$885,000 and \$1,192,000 as of December 31, 2014 and 2013, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Filing parties in certain high-volume programs may deposit funds with the Association to be drawn down and applied to invoices as filing fees are invoiced. Such deposits received in advance of demands for arbitration being filed totaling \$342,000 and \$0 as of December 31, 2014 and 2013, 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.

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 \$15,791,000 and \$11,610,000 as of December 31, 2014 and 2013, 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, 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 Association began a project in 2008 to design and develop new case management applications, which were placed into production in 2014. The cost of development is being amortized over the useful lives of the underlying applications, varying from three to ten years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):***Use of estimates:***

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

Income taxes:

The AAA is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is included in the Association's consolidated financial statements. The Association has no unrecognized tax benefits at December 31, 2014 and 2013. If the Association has unrelated business income taxes, it will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated balance sheet. The Association's Federal and state income tax returns prior to fiscal year 2011 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. A 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.

Reclassification:

Certain amounts in the 2013 financial statements have been reclassified to conform to the current year presentation.

Subsequent events:

The Association has evaluated subsequent events through April 28, 2015, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In February 2015, the Association established the American Arbitration Association - International Centre for Dispute Resolution Foundation, Inc. ("Foundation"). The Foundation is a New York not-for-profit corporation and is organized as a charitable organization which qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. It will be operated for the purposes of engaging in, sponsoring and otherwise supporting activities aimed at improving the quality and efficiency of dispute resolution and legal proceedings in society both domestically and internationally; promoting, fostering, educating, studying, innovating and encouraging the expanded use of alternative dispute resolution proceedings worldwide; and making grants and/or contributions to support those purposes. The Foundation will solicit gifts, grants, and contributions in furtherance of its purpose. As AAA will be the sole corporate member of the Foundation, it is anticipated that the financial position and operating activities of the Foundation will be included in the Association's consolidated financial statements beginning in 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS:

Investments at December 31, 2014 and 2013 consist of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual funds:				
Short Term Bond funds	\$ 19,255,000	\$ 18,925,000	\$ 24,016,000	\$ 23,721,000
Intermediate Term Bond funds	5,120,000	5,119,000	4,874,000	4,890,000
Inflation-Protected Bond funds	3,206,000	3,468,000	3,125,000	3,332,000
High Yield Bond funds	8,229,000	8,105,000	7,798,000	7,890,000
Emerging Markets Bond funds	4,153,000	3,886,000	3,935,000	3,903,000
International Equities funds	13,467,000	13,251,000	12,687,000	13,838,000
U.S. Equities funds	28,946,000	32,512,000	27,293,000	29,466,000
Emerging Markets Equities funds	5,299,000	5,859,000	5,221,000	5,991,000
Real Estate Investment Trust funds	4,678,000	5,837,000	4,512,000	5,101,000
Cash/Money Market funds	1,005,000	1,005,000	887,000	887,000
Total mutual funds:	<u>\$ 93,358,000</u>	<u>\$ 97,967,000</u>	<u>\$ 94,348,000</u>	<u>\$ 99,019,000</u>

Interest and dividends on investments are reported net of investment management fees and bank charges of \$1,038,000 and \$924,000 in 2014 and 2013, 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, 2014 and 2013.

Financial assets carried at fair value at December 31, 2014 and 2013 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2014 and 2013, are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from realtime 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, 2014 and 2013.

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, IT SYSTEMS AND
LEASEHOLD IMPROVEMENTS:

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

	2014	2013
Furnishings and equipment	\$ 11,927,000	\$ 10,976,000
Software developed for internal use	20,723,000	7,065,000
Leasehold improvements	12,709,000	12,674,000
	<u>45,359,000</u>	<u>30,715,000</u>
Less accumulated depreciation and amortization	(22,887,000)	(20,005,000)
Totals	<u>\$ 22,472,000</u>	<u>\$ 10,710,000</u>

In 2014 and 2013, the Association recognized a net loss of approximately \$1,000 and \$351,000 relating to the disposal of certain assets with original costs totaling \$684,000 and \$9,856,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$20,723,000 and \$7,065,000 as of December 31, 2014 and 2013, respectively. Related accumulated amortization as of December 31, 2014 and 2013 was \$7,557,000 and \$5,845,000, respectively.

Software development costs in progress, for various case management applications, websites, and web applications, totaling \$11,573,000 and \$292,000 were placed into service in 2014 and 2013, respectively, and are being amortized over a period of three to ten years.

Additionally, the Association had construction-in-progress totaling approximately \$154,000 in 2014. These costs are primarily associated with leasehold improvements for new office leases which will be placed in service in 2015. 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 \$239,000 in 2013 were placed in service in 2014.

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, 2014 and 2013 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, 2015 are zero; therefore the Association expects to make no contributions to the plan during 2015.

The Association also provides certain healthcare benefits for substantially all of its retirees. The Association is required to accrue the estimated cost of these retiree benefit payments during the employees' active service period. The Association pays the cost of the postretirement benefits as incurred.

Employees hired on or after July 1, 2003 are not eligible for retiree healthcare coverage. Prior to a plan amendment in December 2008, active employees hired on or before June 30, 2003 were eligible for retiree healthcare coverage upon retirement with at least 10 years of service after age 45. Effective December 31, 2008, eligibility for retiree medical was changed to require 15 years of service after the age of 45. However, exceptions were made for employees who would be eligible for retiree healthcare coverage as of December 31, 2008 under the previous eligibility rules of having at least 10 years of service after age 45, for employees who have at least 15 years of service as of December 31, 2008 and who were within 2 years of eligibility under the previous rules, and for a small group of senior executives. Employees who qualify under those exceptions will maintain the previous eligibility provision. The change in this benefit also limits the Association's annual net subsidy for retiree healthcare coverage to twice the 2008 net subsidy provided for all participants.

The pension plan provides a benefit equal to the sum of (a) for each year of benefit accrual service (or any fractional part thereof) credited on or before January 1, 1997, 1.75% of earnings in effect on January 1, 1997, and (b) for each year of benefit accrual service credited after January 1, 1997 and through December 31, 2006, 1.75% of earnings in effect on January 1 of such year.

Estimated future benefit payments in each of the five years subsequent to December 31, 2014 and in the aggregate for the five years beginning in 2020 are as follows:

<u>January 1,</u>	<u>Pension Benefits</u>	<u>Healthcare Benefits</u>
2015	\$ 2,363,000	\$ 341,000
2016	2,421,000	351,000
2017	2,444,000	381,000
2018	2,497,000	406,000
2019	2,498,000	441,000
Years 2020 to 2024	12,713,000	2,540,000

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, 2014 and 2013:

	Pension Benefits		Healthcare Benefits	
	2014	2013	2014	2013
Benefit obligation at December 31	\$ 45,432,000	\$ 38,231,000	\$ 9,942,000	\$ 6,917,000
Fair value of plan assets at December 31	35,299,000	35,520,000	–	–
Net unfunded status of the plan	<u>\$(10,133,000)</u>	<u>\$ (2,711,000)</u>	<u>\$(9,942,000)</u>	<u>\$ (6,917,000)</u>
Amounts recognized in the consolidated balance sheets consists of the following:				
Current liabilities	–	–	\$ 341,000	\$ 323,000
Noncurrent liabilities	10,133,000	2,711,000	9,601,000	6,594,000
Totals	<u>\$ 10,133,000</u>	<u>\$ 2,711,000</u>	<u>\$ 9,942,000</u>	<u>\$ 6,917,000</u>
Components of net periodic benefit cost and other amounts recognized in other changes in net assets				
Net periodic benefit cost:				
Service Cost	\$ –	\$ –	\$ 132,000	\$ 161,000
Interest Cost	1,669,000	1,529,000	321,000	319,000
Expected return on plan assets	(2,579,000)	(2,512,000)	–	–
Amortization of prior service cost	–	–	(432,000)	(432,000)
Amortization of net actuarial loss	711,000	1,158,000	–	–
Net Periodic benefit cost at December 31	<u>\$ (199,000)</u>	<u>\$ 175,000</u>	<u>\$ 21,000</u>	<u>\$ 48,000</u>
Unrecognized net loss (gain) included in net assets	\$18,707,000	\$11,087,000	\$ 1,733,000	\$ (1,628,000)
Employer's contribution	–	–	356,000	471,000
Plan participants' contributions	–	–	51,000	48,000
Net periodic benefit costs	(199,000)	175,000	21,000	48,000
Subsidies received	–	–	–	41,000
Benefit payments	(2,181,000)	(2,153,000)	(407,000)	(560,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of:				
Net actuarial (gain)/loss	7,620,000	(5,146,000)	3,361,000	(816,000)
Weighted-average assumptions to determine the benefit obligation as of December 31:				
Discount rate	3.80%	4.50%	3.90%	4.75%
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:				
Discount rate	4.50%	3.75%	4.75%	4.00%
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	
	2014	2013	2014	2013
Unrecognized actuarial (gain) or loss:				
Beginning of year	\$ 11,087,000	\$ 16,233,000	\$ (1,628,000)	\$ (812,000)
Actual return on plan assets	(1,960,000)	(3,470,000)	-	-
Expected return on plan assets	2,579,000	2,512,000	-	-
Actuarial (gain) or loss	7,712,000	(3,030,000)	2,929,000	(1,248,000)
Amortization of net gain or (loss)	(711,000)	(1,158,000)	432,000	432,000
End of year	\$ 18,707,000	\$ 11,087,000	\$ 1,733,000	\$ (1,628,000)

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost for the next fiscal year is \$1,402,000. 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. The estimated net loss for the postretirement plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is \$101,000.

For measurement purposes, a 7.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. 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,	
		2014	2013
Equity securities	40-70%	58%	58%
Fixed income	30-60%	42%	42%
Totals		100%	100%

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

2014 Asset Category	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Bond Mutual Funds	\$ 14,725,000	–	–	\$ 14,725,000
U.S. Equities Mutual Funds	14,227,000	–	–	14,227,000
International Equities Mutual Funds	6,347,000	–	–	6,347,000
Totals	<u>\$ 35,299,000</u>	<u>–</u>	<u>–</u>	<u>\$ 35,299,000</u>

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>

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, 2014 and 2013.

Mutual Funds are valued at the net value of shares held by the plan at year end (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active markets involving identical assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2015 and 2028. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations amounted to \$8,557,000 and \$10,570,000, for the years ended December 31, 2014 and 2013, respectively. In addition, the Association leases certain furniture, computer equipment, and office equipment under various operating leases, all of which expire over the next one to four years.

Minimum non-cancelable lease commitments for office facilities, equipment and software, exclusive of any future escalation charges, due in each of the five years subsequent to December 31, 2014 and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 7,361,000
2016	6,997,000
2017	6,327,000
2018	5,420,000
2019	5,037,000
Thereafter	<u>35,994,000</u>
Total	<u>\$ 67,136,000</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 for 2013, which accounted for future lease payments and related costs for those leased offices, offset by expected future net sublease income. In 2014, the Association negotiated the early termination of one of the office leases included in the 2013 consolidation. The expenses in 2013 and the subsequent gain, or reduction in expenses, resulting from the early termination in 2014 are included in the net gain/loss on disposal of office leases in the accompanying consolidated statements of operations and changes in net assets. The related liability amounts of \$115,000 and \$2,124,000 for 2014 and 2013, respectively, are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets at December 31, 2014 and 2013, 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, 2014 and 2013, advance deposits collected totaled \$58,319,000 and \$56,109,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2014, pursuant to various office space leases, the Association has letter of credit agreements totaling \$2,940,000. 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 2014 and 2013.



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