



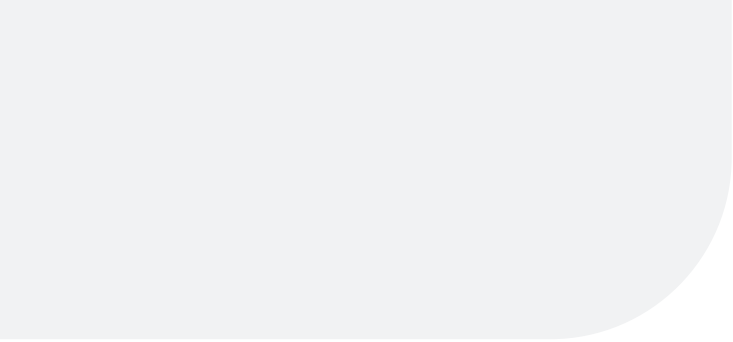
AMERICAN
ARBITRATION
ASSOCIATION®

AAA-ICDR®
COUNCIL

2021



95 YEARS • 2021 ANNUAL REPORT
AND FINANCIAL STATEMENTS



Our Shared **Vision**

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

Our Shared **Mission**

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



OUR SHARED VALUES



Integrity

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



Conflict Management

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



Service

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



Diversity and Inclusion

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

95 years: committed to what matters

1926 ← → 2021

"Our impact on society and the economy through resolution of costly or painful disputes has always been important to us, and good governance is key to all of our objectives."



Dear Stakeholders,

2021 was a successful, if challenging, year for the AAA-ICDR. Like many other organizations and firms, we struggled with multiple 'return to office' start dates that had to be postponed. (However, our March 7, 2022 return to office date has held up!) Patience and the ability to deal with adversity turned out to be keys to success in difficult times—as our mothers always told us they would.

The drastic measures of 2020, however, made 2021's inconveniences easier to manage—all of society learned how to deal with the virus the hard way in 2020. Often in 2021 a live hearing would suddenly move to a virtual format and, in other live hearings, people who were going to attend in-person appeared virtually instead: the 'hybrid' hearing. The key here though is that hearings were held, disputes were decided, and cases were closed. There will still be a backlog because some parties wanted to wait for a fully live hearing that would not be interrupted. We are prepared to help the parties get caught up and get cases closed.

In this annual report, you will not only read about our actual services to parties with disputes but our efforts to improve all of the surrounding features of dispute resolution through the AAA® and ICDR®. Our effort begins long before a case is filed and continues after cases are closed. At the front end, the public wants to be reassured that we have integrity and competence. Rules are updated, Roster members are reviewed, new members are recruited, and education and training is offered—including to advocates and parties.

At the back end, the public wants to know what goes on in arbitration and mediation. We publish data about overall caseloads within industries or legal practice areas. We solicit opinions from users about whether our Roster did a good job and whether our staff did a good job. We survey arbitrators about what went well on real cases and about what held things up, making the case cost more or take longer.

In this annual report, you will read about our collective efforts to improve equity in the ADR field—making it more accessible and making it more inclusive of people who historically may have been excluded. You will read about our ESG ("Environmental, Social, and Governance") impacts and how we measure them.

While we do not impact the environment as large industrial companies might, we can still be good environmental citizens. Our impact on society and the economy through resolution of costly or painful disputes has always been important to us, and good governance is key to all of our objectives.

For a not-for-profit organization, service is about having a positive impact in the areas we want to impact and can impact. Success is about exceeding that baseline and climbing higher, doing more, giving more, and leading more. That is our Vision—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.



"For a not-for-profit organization, service is about having a positive impact."



India Johnson

India Johnson,
President & Chief Executive Officer

Introduction

ADR is driven by party expectations. Disputes should be resolved quickly and in a cost-effective manner. Real and perceived impartiality took on new significance as case participants adapted to new hearing formats. In 2021, ongoing limitations on in-person activities compounded existing backlogs in everything from supply chains to government services. However, advising parties to expect lengthy delays in having their cases heard and resolved was not seen as an option, and AAA-ICDR case staff worked hard to reschedule cases that had been postponed.

Even though the Association laid substantial groundwork for, and moved to, all-virtual hearings in 2020, new challenges continued to arise after the pandemic entered its second calendar year. Questions persisted about when in-person arbitrations and mediations would resume, with different and changing answers across locales in the U.S. and abroad. Waves of new viral variants led to course corrections, renewed lockdowns, and divided public opinion as to appropriate responses.

Through all of that, the AAA-ICDR maintained its capacity to move cases forward and to meet the evolving needs of parties. It also found new, wider avenues for communicating its best thinking about the future of ADR in a changed world, where in-person formats might become more common again but virtual processes had proved themselves to be more than temporary stopgaps.

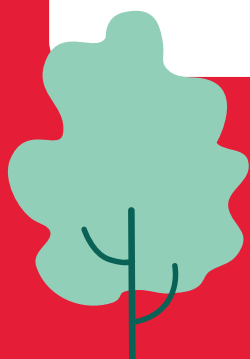
Adding complexity, different caseloads were affected in different ways, reflecting the disparate and evolving impact of the pandemic on individual case participants, industry groups, and entire populations.

“Be agile”

“Be agile” was the attitude Association staff channeled throughout the year. Control what you can control, but find creative solutions that work. Never stagnate, and never make excuses. Instead:

- **Make the most of the AAA-ICDR’s prescient, long-term investment in technology.**
- **Make accommodations, if possible, that are sensitive to a range of comfort levels with both digital and in-person hearings.**
- **Make sure that AAA-ICDR Roster members are equipped to be just as flexible and responsive themselves.**

In 2021, the Association devised new ways of administering cases, from new approaches to hearings to new rules that facilitate large, multiparty filings. Parties were already facing acute difficulties—health-related, financial, and otherwise—even before factoring in the usual pressures, and potential costs, of unresolved disputes. Resolution brings relief, or at least closure, and in 2021 the AAA-ICDR’s staff ensured case participants reached finality within timelines the public had come to expect throughout the organization’s 95-year history.



ESG at the AAA-ICDR

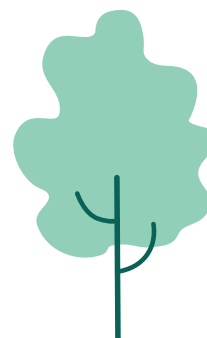
How does the AAA-ICDR extend the benefits of ADR to even more people, or help secure a bright tomorrow for our planet? These are important questions and, in 2021, the AAA-ICDR, through its Board of Directors, adopted a framework for ESG reporting (“Environmental, Social, and Governance”) to provide answers that cast those efforts in sharper relief.

This approach will further the Association’s 95-year commitment to service, integrity, diversity, and peace through conflict management. No organization has done more than the Association, over so many years, to realize ADR’s promise—and ADR itself can be an effective way to advance ESG goals. It is vital to those advocating for laborers’ financial security and safety, to stalled construction projects that will ultimately yield energy-efficient buildings, and to those seeking fair resolution of multifaceted community conflicts.

The AAA-ICDR also takes seriously its role as a corporate citizen. It matches staff donations to charities with urgent needs, holds itself accountable for the diversity of its workforce and Roster, and practices transparent governance. The Association’s investments in its own infrastructure, over many years, paved the way for a rapid transition to virtual hearings—which are likely here to stay and, in 2021, even served to reduce the carbon impact of those case participants who did not have to travel to be heard. For the past six years, the AAA-ICDR Foundation®—with support from the AAA-ICDR, its Roster, and members of its Board and Council and AAA-ICDR staff—has provided funding in support of water security, education, and improving community-police relations, among many other causes.

A more robust process for measuring impact will help the AAA-ICDR to make the most of its ESG efforts, now and in the future. The AAA-ICDR reporting will address “core” and “expanded” metrics identified by the World Economic Forum (WEF), as well as United Nations Sustainable Development Goals (SDGs), in areas where the organization believes it can have the most impact.

The AAA-ICDR does all of this with its stakeholders in mind: parties, participants in elections, advocates, employees, members of its Roster, the courts and other branches of government, educational institutions, various international bodies, vendors and other partners, and the public at large. ESG reporting puts the Association in an even better position than it already was to help reduce conflict today, while doing its part to leave future generations with a world that they can feel fortunate to inherit.



Governance

ESG efforts start at the top. The AAA-ICDR is a mission-driven nonprofit with a long-standing commitment to providing—and educating the public about—fair, effective, efficient, and economical methods of dispute resolution.

The AAA-ICDR Council elects the Board of Directors, which oversees management of the Association. Both governing bodies consist of experienced professionals from varied backgrounds in the for-profit and nonprofit sectors, law, academia, and the public sector. Board and Council members serve on committees not only for governance and operations, but for engagement with external stakeholder groups.

The Board is empowered to exercise oversight, and its members know the organization well. In 2021, the average tenure on the Board was 4.3 years, and two-thirds of Directors were independent. In their roles, they can access external advisors as may be needed, including lawyers, accounting experts, compensation consultants, and investment advisors.

In 2021, the Board included two Directors with knowledge about ESG. The Board now oversees ESG efforts through its Audit Committee which, in 2021, added an ESG Subcommittee comprised of Directors as well as AAA-ICDR executives, including the CEO. This subcommittee reports regularly to the full Audit Committee and to the Board.

AAA-ICDR senior management identifies risks, which are scoped and prioritized before being integrated into Business Continuity Plans and a “Risk Register” maintained through the organization’s Enterprise Risk Management (ERM) program. Executives develop and implement plans to mitigate those risks and individually build knowledge in specific ESG areas.



“If I raised a concern about ethics and integrity, I am confident my employer would do what is right.”

Public trust is the bedrock on which ADR stands, and any doubts about ethical behavior would tend to erode that trust. Election tallies must be accurate. Arbitrators should not preside over cases in which their own personal relationships might create even the impression of favoritism. Files should be handled, stored, and disposed of with care.

Ethics take center stage at the AAA-ICDR. The Board of Directors is bound by a Statement of Ethical Principles, and its members must report any potential conflicts of interest. The AAA-ICDR also provides ethics training to all of its employees. It sets clear expectations for ethical and lawful conduct, requiring employees to adhere to

Gallup Sustainability 5 Index Responses

90% | % of AAA-ICDR Employees Who Agree

an Employee Code of Conduct, a “No Gifts” Policy, and conflict of interest guidelines that are detailed in the Employee Handbook.

There is a whistleblower policy, along with multiple lines of communication for employees to report actions believed to be unethical or in violation of AAA-ICDR policies. These include an anonymous online reporting system maintained by a third party. The members of the AAA-ICDR’s Roster also receive ethics training and are themselves required to adhere to a Code of Ethics and to make disclosures relating to conflicts of interest.





Planet / Environment

Efforts to combat climate change and to conserve natural resources show AAA-ICDR governance processes in action.

Environmental risks can lead to disputes, and ADR is central to the AAA-ICDR's mission: The organization is, by its very nature, in a special position to make a difference. For instance, the Association has long provided disaster-related dispute resolution services to hurricane-impacted areas like the Gulf Coast and the Eastern Seaboard, administering mediations through state-mandated disaster-claim programs that have achieved high settlement rates and aided tens of thousands of Americans as they coped with catastrophe. Standing up these programs quickly takes foresight, experience working with local officials, and the administrative creativity to operate in storm-damaged areas. Going forward, the Association plans to track filings of disputes that involve any kind of climate-related risks so it is even better equipped to identify and support those in need.

The Association is not immune to climate-related challenges. It has more than two dozen offices across the U.S., as well as in Singapore. Its employees, who numbered more than 600 in 2021, share community-specific challenges with their neighbors. Scenario planning and tabletop exercises not only help to identify broad categories of climate risk, they are ideal for working

through potential events in detail and determining appropriate investments in technology.

The Association also continuously seeks to reduce its carbon footprint. Six of the AAA-ICDR's 29 offices are located in LEED-certified buildings, including its headquarters in New York City, as are both of its off-site data centers. Commuting and business travel remained limited in 2021 because of the pandemic, but as the Association began reopening offices and engaging in outreach and other activities, staff have been encouraged to minimize business travel where possible, and instead use a full range of technology tools that facilitate online communication and collaboration.

In 2021, after equipping all staff with laptops more in line with at-home and hybrid workflows, the AAA-ICDR, in keeping with its long-standing e-waste practices, donated hundreds of desktop computers and servers to a third-party that refurbishes and sells them at a discount—or simply gives them away—to nonprofits, schools, and individuals in need. These efforts reduced waste by giving this equipment a new life, promoted energy efficiency, made it easier and more secure for staff to work from home, and enhanced preparedness for threats to business continuity.

Gallup Sustainability 5 Index Responses

87%

% of AAA-ICDR
Employees
Who Agree

“My organization makes a positive impact on people and the planet.”

People / Social

The Association is committed to fostering a work environment that is collaborative, challenging, and rewarding; one where pay levels are both competitive and equitable, and benefit programs are best-in-class. This commitment has resulted in the AAA-ICDR once again being named to *The Nonprofit Times*' "Best Nonprofits to Work For" list, *Crain's New York Business*' "Best Places to Work in NYC" list, and A.J. Gallagher's "Best-in-Class Employers" list.

The AAA-ICDR also contributes to the broader economy. For ESG purposes, this is measured in terms of "Direct Economic Value Generated and Distributed." In 2021, the AAA-ICDR recorded \$129,085,000 in revenue against operating costs of \$116,339,000. Employee wages and benefits totaled \$78,595,000. The Association's gross capital expenditures in 2021 totaled \$4,167,000.

The AAA-ICDR also invests directly in communities and the organizations that serve them. In 2021, the AAA-ICDR provided financial and in-kind community investment totaling \$2,615,200 that included donations by the AAA-ICDR to the AAA-ICDR Foundation (\$2,050,000); donations of services, including on a pro bono basis and, through the organization's Marketing Department, services to Active Bystandership for Law Enforcement (ABLE) and Effective Law Enforcement for All (ELE4A); matching gifts and direct donations; compensated volunteer efforts by employees; and ADR events and sponsorships. In 2021, the AAA-ICDR provided 21,477 fee waivers, with a total value of \$1,609,805, to parties demonstrating hardship.

The move from physical to digital processes has saved parties time and money while furthering environmental goals. Those taking advantage of AAA-ICDR services can use less paper thanks to an electronic case management system that, among other things, stores important documents and exhibits. Over 35,000 filings were done electronically in 2021. The Association also received over 70,000 payments electronically during the year.



“At work, I am treated with respect.”

“My organization cares about my well-being.”

“There is someone at work who encourages my development.”

Gallup Sustainability 5 Index Responses

93% | % of AAA-ICDR Employees Who Agree

91% | % of AAA-ICDR Employees Who Agree

90% | % of AAA-ICDR Employees Who Agree

Technology affords case participants flexibility in terms of hearing format, too. Parties convened for 147,000 virtual hearings and mediation sessions in 2021, and more than 210,000 voters were eligible for online elections the AAA administered. The AAA-ICDR also encourages the use of documents-only arbitration procedures and during the year administered more than 1,000 step mediations, which encourage early settlement.

Throughout the year, the AAA-ICDR showed its continuing commitment to data as a 21st century resource to be protected. In 2021, the Association refreshed two popular “apps” that provide access to AAA-ICDR rules sets and model clauses, as well as mobile access for parties to the online case management system.

147,000

virtual hearings and mediation sessions in 2021

The information security of case participants is just as important. CaseShield by AAA-ICDRSM, a virtual desktop service for AAA-ICDR arbitrators which had a successful pilot in 2020, was expanded to the entire New York No-Fault Insurance panel in 2021, with roughly 200 of them using it daily for features including secure email with enterprise-grade email spam filtering, web content filtering, advanced firewall protections, anti-virus/anti-malware software, and two-factor authentication.



A second pilot for non-NYSI arbitrators launched in 2021. By empowering the AAA-ICDR's Roster to improve their security risk profiles for themselves, this service benefits case participants.

The AAA-ICDR Roster Giving Back

The AAA-ICDR has recruited thousands of individuals from extraordinary backgrounds to serve as mediators and arbitrators. Not surprisingly, many of them give back to their communities with the same enthusiasm that propelled their ADR careers forward. The AAA-ICDR encourages and celebrates that.

69% of Roster members donated

In 2021, 69% of Roster members subject to the annual registration fee donated half of their fee to the AAA-ICDR Foundation. A survey also yielded compelling examples of the pro bono and volunteer work they do, which ranges from ecological conservation in forests and along coastlines, to animal rights, to serving on bar association committees, promoting education, and helping those at the margins to receive the support they need from their communities.

Diversity and Inclusion

Diversity and inclusion are core values for the AAA-ICDR. When a new arbitrator interacts with AAA-ICDR case staff or executives, they should encounter people from varied backgrounds. When a party is selecting from a list of potential arbitrators, they should have the option to select someone who might bring a different perspective to their case. When any stakeholder engages with the AAA-ICDR, they should see a big tent where the best ideas are free to emerge.

The Association's governance structure reflects this commitment. In 2021, 46% of AAA-ICDR Board members and 61% of Council members were women or racially or ethnically diverse. The AAA-ICDR's staff is also diverse. In 2021, 45% of AAA-ICDR employees identified as racially or ethnically diverse.

Another area of focus for the AAA-ICDR is maintaining and improving the diversity of its Roster. In 2021, 50% of those individuals recruited to join the Roster as arbitrators were female, racially diverse, and/or ethnically diverse. The Roster ended the year 29% diverse, continuing a steady increase over several years.

The Diversity & Inclusion Committee, comprised of AAA executives and staff, plans initiatives and events, builds awareness in collaboration with other organizations, and reports on its activities to the AAA-ICDR's governing bodies. The AAA-ICDR Council's Diversity & Inclusion Committee provides advice and recommendations in support of these activities.

Diversity and inclusion efforts extend to the AAA-ICDR's education and employee development programming. An internal employee resource group called I.D.E.A.S. E.R.G. ("Inclusion, Diversity, Equality, Acceptance, and Support Employee Resource Group") holds events and provides resources that foster sensitivity, understanding, and unity.

I Inclusion

D Diversity

E Equality

A Acceptance

S Support

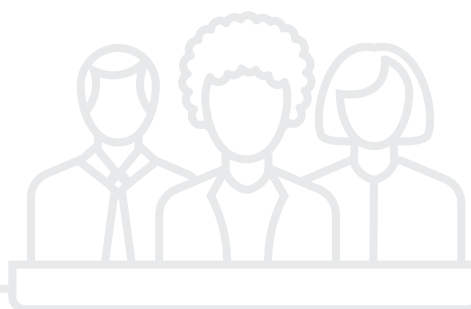
The Association's Higginbotham Fellows Program, established in 2009, provides diverse professionals launching careers in ADR with training, mentorship, and a network of experienced colleagues. In 2021, the curriculum took on a more robust format, now including a three-part self-study component lasting several months, followed by four full days of training in the AAA-ICDR's New York offices. The 15 Fellows, who completed the initial phase during the year, are scheduled to attend the intensive in-person component in May 2022. Not including this most recent class, 134 Fellows have graduated from the program since 2009, with nearly all who applied advancing to appointments on the Association's Roster.

Once arbitrators and mediators from diverse backgrounds join the Roster, it is important that they have the opportunity to be selected by parties to serve on cases. In 2021, 95% of lists of proposed arbitrators were at least 20% diverse. For some caseloads, lists were up to 47% diverse. The proportion of diverse panel appointments, which has been moving steadily in an upward trend, rose to 32% in 2021. The AAA-ICDR also offers ADR professionals opportunities to build and share their knowledge and present as faculty for the AAA-ICDR's educational and training programs. More than 50% of the faculty who delivered these programs in 2021 were diverse.

In 2021, all Roster members were required to complete an Arbitrator Continuing Education program, offered free of charge, titled *Impartiality: Do You Know Where Your Biases Are?*.

32% | Diverse Panel Appointments

The proportion of diverse panel appointments, which has been moving steadily in an upward trend, rose to 32% in 2021.



Equity at the AAA-ICDR

A key tenet of ADR is fairness, and the AAA-ICDR has, for decades, made strides to help not only parties to individual disputes but entire communities to achieve more equitable outcomes that strengthen bonds and enrich lives. Providing quality conflict management services is important, but so is expanding access to those services for the underserved. Since 2015, the AAA-ICDR Foundation has played a critical role in those efforts, providing millions of dollars in funding to projects in the U.S. and abroad focused on access to justice; crisis management; anti-violence campaigns; and initiatives supporting environmental causes, indigenous populations, and the elderly.

In 2021, the AAA-ICDR Foundation completed its sixth and largest-ever grant cycle, which provided over \$655,000 in funding. The recipients were the Arizona State University Foundation and the RAND Corporation, both addressing racial injustice in police use of force and community-police relations, and Resolution Systems Institute, to design a model court-connected online program for eviction mediations that responds to pandemic-related access to justice needs as well as the housing crisis precipitated by the pandemic.

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In September, the Foundation established a Rapid Response Fund which, in its first round, provided \$25,000 in funding each to four organizations (Asian Americans Advancing Justice, Asian Pacific American Dispute Resolution Center, National Asian Pacific American Bar Association Law Foundation, and the National Council of Asian Pacific Americans), all supporting Asian-American/Pacific-Islander communities in the U.S. with a focus on addressing hate directed toward them.

Later in the year, a second round of \$25,000 grants went to Youth ALIVE!, CHRIS 180, and Gangstas Making Astronomical Community Changes Inc. (each focused on violence intervention) and BUILD, Inc. (focused on mental health services for young people and families). The Foundation also awarded \$39,605 from its Diversity Scholarship Fund to 23 recipients globally who are pursuing educational opportunities in ADR.

The AAA-ICDR also promotes equity by increasing the diversity of its Roster, encouraging parties to select diverse arbitrators and mediators and organizing diverse panels on AAA-ICDR programs that bring the latest and best thinking on ADR to the world.

In past years, these efforts have included an Aspiring Arbitrators Academy produced in partnership with the National Bar Association, the Association's Higginbotham Fellows Program, and a multi-day Diversity Student ADR Summit first held in 2019. The AAA-ICDR Foundation makes grants to nonprofits focused on using restorative justice, crisis intervention, and education to help vulnerable populations manage conflict in new ways. The ICDR, with its international scope, is a signatory to the Equal Representation in Arbitration Pledge promoting gender equity for arbitration tribunals. The ICDR tracks and reports the proportion of women on its Roster and how many are appointed on cases.

In 2021, the Association made a successful effort, in conjunction with numerous organizations, to diversify the Master Mediator Panels that are made available on individual caseloads. The Association was also actively involved with more than 50 diversity-oriented professional groups and events.

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Commercial Division

Divisional Report

In 2021, Commercial Division technology, energy, and telecommunications caseloads saw increased activity. Across nine different industries, from hospitality to telecommunications to food and beverage, there were claims that exceeded \$100,000,000.

The Division administered more than 2,200 virtual case-related events, double its 2020 total, as parties, representatives, and the Roster adapted to a new virtual normal. These events included hybrid evidentiary hearings (using voice-activated cameras) and more than 170 mediation sessions.

Commercial Division Committees of the Council and Key Sector Committees completed a number of projects. The Healthcare ADR Committee hosted a series of six webinars covering all aspects of healthcare arbitration, which garnered more than 950 views. The Large Complex Case Committee published model templates for discovery orders involving electronically stored information and surveyed arbitrators who serve on large complex cases about interim awards.

The Key Sector Energy Advisory Committee, consisting of industry professionals, identified untapped outreach opportunities and conducted in-depth research. These efforts led to a *Corporate Counsel Business Journal* article, "Arbitrating Energy Disputes Benefits All Parties Involved."

Representatives from the Key Sector Financial Advisory Committee spoke before bar associations about mediating bankruptcy disputes and helped draft an article on arbitrating these disputes for the American Bankruptcy Institute's *ABI Journal*.

The Division also established a National Cannabis Industry Advisory Committee to develop ADR solutions for this nascent but growing business community. Several bar association programs and podcasts featured committee members in 2021.

The Association served as a sponsor for the American Bar Association's Business Law, Health Law, and Dispute Resolution Sections, with Division executives participating in panel discussions and holding leadership roles.

The Division also revised its Master Mediator Panel for large complex cases based on assessments collected from those who recently filed such cases with the AAA-ICDR, and the diversity of that Panel more than doubled.



Construction Division

Divisional Report

The AAA-ICDR continues to be the leading ADR provider to the construction industry. Despite ongoing COVID-19 restrictions that postponed or cancelled projects, Construction Division filings remained strong, consistent with prior-year filings. Virtual platforms, and increased familiarity with their use thanks to Association guidance on best practices, helped to keep hearings on track. More than 2,200 case-related events—including hybrid evidentiary hearings and 440 mediation sessions—took place virtually for this caseload in 2021.

The AAA-ICDR continued to engage with construction industry leaders through the National Construction Dispute Resolution Committee (NCDRC), a Committee of the AAA-ICDR Council. In 2021, the NCDRC focused on promoting efficiency in arbitration through various education programs with industry associations and through the AAA-ICDR's 2021 Construction Conference, themed "Moving Forward in a New Decade." The virtual conference, held in June, attracted 310 participants from 38 states and four countries. Executives also participated in and presented at numerous virtual conferences, including partnering once again on the annual Construction Super Conference in December, while keeping up a brisk cadence of articles and outreach.

The NCDRC Mentorship Program, developed in late 2020, kicked off with its first class in 2021. The yearlong process helps to orient new arbitrators by pairing them with more experienced colleagues. Of the 26 arbitrators in the first class of mentees, nearly one-third were from diverse backgrounds.

With industry expertise and diversity in mind, the Division continued to refine the composition of its specialized panels. After surveying advocates and parties, the AAA-ICDR updated its Construction Mega Project Panel, which features top-rated construction attorneys and industry professionals and was 27% diverse. The Division also reviewed its Master Mediator Panel for the largest, most complex cases, after enlisting advocates with recent experience on this caseload to rate suitability for mediating these disputes. Also as a result of this review, the diversity of this Panel more than tripled.

More than

2,200

case-related events—including
hybrid evidentiary hearings and
440 mediation sessions—took
place virtually for this caseload
in 2021.



Labor, Elections, Employment, and Consumer Division

Divisional Report

The Labor, Elections, Employment, and Consumer Division once again made a difference in the lives of those who, by producing or consuming goods and services, help to fuel the engine of the U.S. economy.

Labor

In 2021, Labor case filings increased 3%, and the Division continued to administer virtual and hybrid hearings. Over 1,200 virtual evidentiary hearings took place, and the Division hosted 105 of those. Of new labor arbitrators added to its panel in 2021, 23% were diverse.

With continued emphasis on virtual events, AAA Labor executives engaged with approximately 30 national and regional organizations, making countless presentations and delivering educational programming on topics ranging from ethics in wrongful termination claims to women in dispute resolution and labor relations in a virtual world. The Division also hosted 17 virtual labor, as well as employment, roundtable discussions with arbitrators and advocates across the country and 23 labor advocacy programs. It sponsored both the New York State Bar Association's Labor and Employment Conference and its Annual Conference, as well as the Ohio State Bar Association's Midwest Labor & Employment Seminar, which had 664 attendees. Department publications included the quarterly *Labor Arbitration News*, which launched in June, and an article on expedited procedures for this caseload.

Employment

In 2021, 426 evidentiary hearings were conducted virtually, with 15% of those hosted by the Association. The Division added 44 new Employment arbitrators in 2021, 59% of whom were diverse. It also produced a new series of three webinars titled "The Era of COVID-19: The Dynamic Changes in the Workplace," which explores leaves of absence, discrimination, and remote work.

426 | Evidentiary Hearings
Conducted Virtually

On August 1, 2021, the Division introduced the all-new Supplementary Rules for Multiple Case Filings. These Rules provide for case coordination and administrative efficiencies to assist counsel with management of dozens, hundreds, or even thousands of contemporaneous, individual arbitration cases for disputes where the Employment/Workplace Fee Schedule or the Consumer Fee Schedule apply.

Elections

The Elections Department conducted four in-person elections and 37 online elections in 2021, including a complex, multi-ballot election on behalf of 11 divisions of a union. In 2021, the AAA-ICDR rolled out a new elections app. An entirely new elections system also went live for both online and instant-runoff voting elections. Across 28 elections that used the new system during the year, more than 10,000 voters cast votes.

Consumer

On Consumer cases, the Association administered 2,119 virtual evidentiary hearings, hosting 106 of them, and participants in 527 cases took advantage of the AAA's Online Settlement Tool, a 236% increase. The Consumer panel stood at 1,841 members at the end of 2021, a 51% increase. This is a testament to the group's efforts at recruitment and careful review of applications.

These Roster members benefitted from a new, fully online training program—developed in collaboration with the Association's Educational Services Department. The Consumer team also delivered a training program for the National Association of Consumer Advocates and contributed an article on filing consumer arbitration claims to *Advocate* magazine.

Pro Se

There were 6,231 Pro Se case filings in 2021, the sixth straight year of growth for this caseload. Of particular note was the increase in filings through third-party platforms. The Pro Se team also held roundtables across the country to educate and encourage experienced arbitrators to serve on consumer and pro se cases.

Minnesota No-Fault

In 2021, after issuing a request for proposals, the Minnesota Supreme Court once again selected the AAA to administer the Minnesota No-Fault caseload. The AAA has served in this capacity since 1975.

AAA New York State Insurance Division (NYSI)

Divisional Report

In 2021, the AAA New York State Insurance Division (NYSI) saw increased case activity. No-fault automobile insurance filings grew 13.5% year over year, with \$880 million in initial claims across 405,756 cases. The Division's 182 arbitrators conducted 136,817 no-fault hearings, 12.1% more than in 2020. Filings on this caseload have increased 63.5% since 2016, and the conciliation rate increased 15% in 2021 to 50%, with an average settlement amount in conciliation of \$1,077.

The Division's 182 arbitrators conducted

136,817

no-fault hearings,

12.1% more than in 2020.

The average disputed amount across all no-fault cases was \$2,163, underscoring the importance to parties of cost-effective resolution. This was the first year in which all NYSI cases proceeded virtually. The average time to award did not change from 2020, and the online hearing format gave parties access to a more geographically diverse pool of arbitrators.

Supplemental Underinsured/Uninsured Motorists (SUM) program filings also increased, by 35.6%, with settlements increasing 5.2%.

None of this would have been possible without the support of the New York State Department of Financial Services (DFS) and the panel of arbitrators working in a cooperative spirit to adapt to a changing environment.

International Centre for Dispute Resolution

Divisional Report

The International Centre for Dispute Resolution (ICDR) remained active and engaged with the international arbitration and mediation communities, despite the challenges of being unable to meet in person because of the pandemic.

In March, the ICDR published amended ICDR International Dispute Resolution Procedures. The amended Procedures were the culmination of the combined efforts of an ICDR committee of arbitration and mediation practitioners from across the globe and ICDR staff. These sweeping amendments, the first since 2014, account for the increasing sophistication and virtualization of international dispute resolution.

The ICDR's International Arbitration Rule amendments included important innovations: a presumption that the parties will consider mediating their dispute; greater transparency regarding the procedure for considering arbitrator challenges; and clarifying language regarding third-party funding, consolidation and joinder, and cybersecurity and data privacy. Updates to the Mediation Rules span the full range of procedures, also emphasize cybersecurity and data privacy, and address enforcement of mediated settlements under the Singapore Convention. The ICDR also created a specialized international mediation panel.

Leveraging virtual events to bridge geographies, the ICDR's Asia Case Management Centre in Singapore delivered educational programs throughout the year on topics including the impact of the new ICDR rules for stakeholders in Asia, risk mitigation for commercial parties in India, and consolidation in upstream oil and gas arbitrations. A virtual town hall in March covered subcontracts and multiparty arbitration of construction disputes, and the ICDR participated in a roundtable about the impact of COVID-19 on international arbitration.

The ICDR's Y&I Group, which includes thousands of ADR professionals, conducted over 20 programs, including: virtual mock cross-examination training, the art of deliberations, and Spanish-language sessions covering third-party funding and construction arbitration. Its online videos received over a thousand hours of viewership.

The ICDR also worked closely with the Independent Film & Television Alliance® (IFTA), which designated the ICDR as the new administering organization for arbitrations governed by the Rules for IFTA Arbitrations. Since 1984, IFTA itself had administered international arbitrations under those Rules for companies in worldwide film and television production, distribution, financing, and sales.





AAA Mediation.org[®]

Divisional Report

Mediation is an expansive, flexible form of ADR that helps parties come together to devise practical solutions that may preserve their pre-dispute relationships. It also enhances the efficiency of arbitration, as parties can reach agreement rather than proceeding to an evidentiary hearing and award. Throughout 2021, mediation made a difference for parties across caseloads, and AAA Mediation.org also worked to further optimize the process and educate the public about it.

Mediation can be a cost-effective approach to straightforward disputes between two individuals, and it can be used to encourage settlement of large, complex cases. For example, the new Supplementary Rules for Multiple Case Filings, launched in 2021, include a requirement that, within 120 days of the Answer deadline, parties shall initiate a global mediation. Currently, there are numerous large, mass caseloads participating in global mediations.

As detailed elsewhere in this report, in 2021 AAA-ICDR executives also enhanced the diversity of Master Mediator Panels (MMPs) for specific caseloads. These panels give parties access to mediators, even those from other geographical regions, with specialized experience and expertise. In one complex construction dispute involving a multibillion-dollar public facilities development program, the parties—there were multiple stakeholders—reached complete settlement with the assistance of an AAA Master Mediator through a structured, multi-week process with which participants reported a high degree of satisfaction.

In 2021, the AAA-ICDR also redoubled its efforts to develop and spread mediation best practices globally. This work included:

- The first four videos in an eight-video series, “Mediation at the Association—Who We Are and What We Do”;
- Advanced virtual trainings in “multiparty / complex mediations for a digital age,” “advanced blended mediation strategies,” “global mediation for commerce,” and “representing clients in mediation”;
- New articles on practice skills for the ongoing “Mediation Mind Shifts” series, as well as educational videos on communication and improved law enforcement / community relations;
- A new private credentialing partnership with the Southern California Mediation Association and an engagement with the New York Unified Court System to teach settlement judges and court staff analytical techniques; and
- Presentations at industry conferences and training programs, including those hosted by bar and professional associations, among them the ABA’s Dispute Resolution Section.

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AMERICAN ARBITRATION ASSOCIATION®

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2021 AND 2020

AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS
AMERICAN ARBITRATION ASSOCIATION, INC.

Opinion

We have audited the consolidated financial statements of American Arbitration Association, Inc. and its subsidiaries (collectively the "Association"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Association as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

INDEPENDENT AUDITOR'S REPORT (CONT.)

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

CohnReznick LLP

New York, New York

April 27, 2022

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 20,625,000	\$ 46,678,000
RESTRICTED CASH	4,556,000	4,919,000
INVESTMENTS - At Fair Value	354,499,000	258,404,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of \$451,000 in 2021 and \$573,000 in 2020	26,526,000	18,765,000
OTHER RECEIVABLES	851,000	954,000
PREPAID EXPENSES	4,614,000	3,911,000
INTERNAL-USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	3,136,000	409,000
FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS - Net	17,341,000	21,436,000
TOTAL ASSETS	<u>\$ 432,148,000</u>	<u>\$ 355,476,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 210,259,000	\$ 174,722,000
Accrued postretirement medical costs	12,251,000	13,273,000
Agency fund	4,556,000	4,919,000
Deferred rent	4,934,000	4,912,000
Deferred revenue	69,837,000	57,313,000
Total Liabilities	<u>301,837,000</u>	<u>255,139,000</u>
Commitments and Contingencies		
NET ASSETS:		
Without donor restrictions:		
Undesignated	51,715,000	22,471,000
Board Designated	78,596,000	77,866,000
Total without donor restrictions	<u>130,311,000</u>	<u>100,337,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 432,148,000</u>	<u>\$ 355,476,000</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES
IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$ 81,110,000	\$ 74,856,000
State insurance	38,568,000	34,594,000
Labor	4,175,000	3,861,000
Elections	3,522,000	2,935,000
Totals	127,375,000	116,246,000
Publications and education	1,067,000	678,000
Other operating income	1,477,000	1,416,000
Totals	129,919,000	118,340,000
OPERATING EXPENSES		
Administration of tribunals	103,150,000	94,735,000
Elections	3,896,000	3,507,000
Publications and education	1,381,000	1,188,000
General and administration	6,111,000	5,761,000
Totals	114,538,000	105,191,000
Net Operating Income	15,381,000	13,149,000
NON-OPERATING INCOME AND EXPENSES		
Investment return, net	13,640,000	9,777,000
Loss on disposal of assets	(522,000)	(55,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE POSTRETIREMENT MEDICAL OBLIGATION ADJUSTMENT	28,499,000	22,871,000
Postretirement medical obligation adjustment	1,475,000	(1,338,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	29,974,000	21,533,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	100,337,000	78,804,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 130,311,000	\$ 100,337,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2021</u>	<u>2020</u>
Change in net assets	\$ 29,974,000	\$ 21,533,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,935,000	5,278,000
Bad debt and change in provisions for uncollectible accounts	160,000	662,000
Deferred rent	22,000	(299,000)
Net realized and unrealized gains on investments	(8,248,000)	(6,924,000)
Loss on disposal of assets	522,000	55,000
Changes in operating assets and liabilities:		
(Increase)/Decrease in administration fees receivable	(7,921,000)	3,116,000
Decrease/(Increase) in other receivables	103,000	(178,000)
Increase in prepaid expenses	(703,000)	(417,000)
Increase in accounts payable and accrued expenses	35,537,000	62,746,000
(Decrease)/Increase in accrued postretirement medical costs	(1,022,000)	1,663,000
(Decrease)/Increase in agency fund	(363,000)	59,000
Increase in deferred revenue	<u>12,524,000</u>	<u>20,107,000</u>
Net cash provided by operating activities	<u>65,520,000</u>	<u>107,401,000</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(953,000)	(4,611,000)
Proceeds from sale of investments	15,546,000	62,774,000
Purchase of investments	(103,393,000)	(141,533,000)
Internal use software development and construction in progress	<u>(3,136,000)</u>	<u>(409,000)</u>
Net cash used in investing activities	<u>(91,936,000)</u>	<u>(83,779,000)</u>
 NET (DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	 (26,416,000)	 23,622,000
 CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	 <u>51,597,000</u>	 <u>27,975,000</u>
 CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	 <u><u>\$ 25,181,000</u></u>	 <u><u>\$ 51,597,000</u></u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business and principles of consolidation:

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the financial position and operating activities of American Arbitration Association, Inc. ("AAA"), and the subsidiaries it controls (collectively the "Association"). All inter-company accounts and transactions have been eliminated in consolidation.

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

Revenue recognition:

The Association does not typically enter into contracts with parties to cases administered by the Association. However, solely for the purposes of applying the revenue recognition guidance noted in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606 and these consolidated financial statements, the Association will consider the acceptance of a demand for arbitration under any of the Association's fee schedules or the provision of dispute resolution services as a contract. Payment terms vary by the type of services offered. The standard payment terms generally align with the timing of the services performed and do not include a financing component. The Association recognizes revenue when services are delivered to a customer or administrative milestones are achieved, in amounts that reflect the consideration that the Association expects to receive in exchange for those services. The transaction price is allocated to each service or administrative milestone based upon progress towards resolution of the dispute or the relative benefit derived by the customer from the completion of each component of the services delivered.

Administration fees:

The initial filing fee for commercial cases, which are subject to a minimum fee, is billed at the commencement of the dispute resolution process. Under certain limited circumstances, the initial filing fee is eligible for refund following this commencement. Based on analysis of current trends, the Association recorded a provision for deferred revenue in 2021 and 2020 of \$438,000 and \$383,000, respectively, which is included in the accompanying consolidated balance sheets and represents the estimated amount of future refunds.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Revenue from the case management or final fee is recognized as each administrative milestone is completed, usually following the completion of evidentiary hearings or the closure of a case.

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

In accordance with FASB ASC Topic 606, the Association recorded deferred revenue from administration fees of \$67,785,000 and \$55,315,000 as of December 31, 2021 and 2020, respectively, which is included in the accompanying consolidated balance sheets.

Registration fees for educational programs and other services may be payable in advance prior to an education program event or delivery of services. As of December 31, 2021 and 2020, deferred revenue from education and services revenue of \$87,000 and \$207,000, respectively, is included in deferred revenue in the accompanying consolidated balance sheets.

A panel fee is collected from individuals serving on the Association's panel of arbitrators and mediators. The fee is assessed annually on a calendar-year basis. As of December 31, 2021 and 2020, payments received in advance of the start of the assessment year totaling \$562,000 and \$439,000, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Filing parties in certain high-volume programs may deposit funds with the Association to be drawn down and applied to invoices as filing fees are invoiced. As of December 31, 2021 and 2020, such deposits received in advance of demands for arbitration being filed totaling \$965,000 and \$969,000, respectively, are included in deferred revenue in the accompanying consolidated balance sheets.

Cash and cash equivalents:

The Association considers all highly liquid investments with original maturities of three months or less on the date of purchase to be cash equivalents. Cash and cash equivalents were \$20,625,000 and \$46,678,000 as of December 31, 2021 and 2020, respectively.

Restricted cash:

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

	2021	2020
Cash and cash equivalents	\$ 20,625,000	\$ 46,678,000
Restricted cash	4,556,000	4,919,000
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 25,181,000</u>	<u>\$ 51,597,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Restricted cash represents funds designated for the EU-US Privacy Shield Annex I Binding Arbitration Mechanism, which the Association's international division, the International Centre for Dispute Resolution, manages for the U.S. Department of Commerce. This program requires participating organizations of the EU-US Privacy Shield program to pay a periodic contribution to the fund to be used for the costs associated with the arbitrations arising out of the Privacy Shield program. The Association records restricted cash and a corresponding liability for amounts received from these participating organizations. The restricted cash and corresponding liability balance as of December 31, 2021 and 2020 is \$4,556,000 and \$4,919,000, respectively.

Concentrations of credit risk:

Financial instruments, which potentially subject the Association to concentrations of credit risk, include cash and cash equivalents, administration fees receivable, other receivables, and investments (see Note 2). The Association maintains cash, cash equivalents, and restricted cash in bank deposit and other accounts, the balances of which exceeded federally insured limits by \$34,900,000 and \$60,839,000 as of December 31, 2021 and 2020, respectively. The Association places its cash, cash equivalents, and restricted cash with creditworthy, high-quality financial institutions. Credit risk with respect to administration fees receivable is also limited because the Association deals with a large number of customers in a wide geographic area. The Association closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Association evaluates its administration fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:

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

Furnishings, equipment, IT systems and leasehold improvements:

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

Capitalization of software developed for internal use:

The Association capitalizes costs incurred for the development of software for internal use. The cost of development is amortized over the useful lives of the underlying applications, varying from three to thirteen years.

Use of estimates:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Income taxes:

The Association is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is included in the Association's consolidated financial statements. The Association has no unrecognized tax benefits at December 31, 2021 and 2020. The Association's Federal and state income tax returns prior to fiscal year 2018 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Association will recognize interest and penalties associated with tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated balance sheets. There were no interest or penalties paid for the years ended December 31, 2021 and 2020.

Deferred rent:

Certain of the Association's lease agreements provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than initial occupancy. Provision has been made for the excess of operating lease rental expense, computed on a straight-line basis over the lease term, over cash rentals paid.

Classification of net assets:

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

Net assets without donor restrictions - net assets that are not subject to donor imposed stipulations. The Association's Board of Directors ("Board") may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions - net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. The Association did not have any net assets with donor restrictions as of December 31, 2021 and 2020.

An operating reserve fund designated by the Board totaled \$78,596,000 and \$77,866,000 as of December 31, 2021 and 2020, respectively. Board designated net assets are net assets without donor restriction which the Board has set aside to mitigate risks that may impact the Association's financial sustainability and to serve as a long-term capital fund. As of December 31, 2021, the operating reserve represented nine months of operating expenses. Beginning in 2022, the operating reserve will be increased to twelve months of operating expenses. There were no expenditures from the operating reserve fund in both 2021 and 2020.

Subsequent events:

The Association has evaluated subsequent events through April 27, 2022, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

NOTE 2 - INVESTMENTS:

Investments at December 31, 2021 and 2020 consist of the following:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	\$ 126,951,000	\$ 125,524,000	\$ 93,716,000	\$ 94,227,000
Intermediate Term Bond funds	83,028,000	82,120,000	56,470,000	57,859,000
Inflation-Protected Bond funds	8,087,000	8,695,000	5,698,000	6,278,000
High Yield Bond funds	17,762,000	17,937,000	12,994,000	13,093,000
Emerging Markets Bond funds	9,137,000	9,016,000	6,361,000	6,690,000
International Equities funds	16,302,000	20,816,000	11,310,000	14,613,000
U.S. Equities funds	60,936,000	72,295,000	44,897,000	53,325,000
Emerging Markets Equities funds	3,866,000	5,146,000	2,719,000	3,970,000
Real Estate Investment Trust funds	7,495,000	9,323,000	6,580,000	6,625,000
Cash/Money Market funds	3,627,000	3,627,000	1,724,000	1,724,000
Totals	<u>\$ 337,191,000</u>	<u>\$ 354,499,000</u>	<u>\$ 242,469,000</u>	<u>\$ 258,404,000</u>

In 2019, the Association's Board implemented a 457(f) deferred compensation plan covering certain key employees. Payments from this plan are subject to vesting periods of three to four years. The Association has established investment accounts to manage funds credited to this plan on an annual basis. The investments remain assets of the Association until vesting periods for each participant have elapsed. The assets and liabilities related to the 457(f) Plan are included in the investments and in the accounts payable and accrued expenses in the accompanying consolidated balance sheets and represent the cumulative amount of contributions to the 457(f) Plan, as well as the accumulated earnings and losses since the 457(f) Plan's inception. The plan asset balance and associated liability as of December 31, 2021 and 2020 were \$2,865,000 and \$1,740,000, respectively.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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, 2021 and 2020.

Financial assets carried at fair value at December 31, 2021 and 2020 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2021 and 2020, 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.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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

	Estimated Life	2021	2020
Furnishings and equipment	7 to 10 Years	\$ 13,118,000	\$ 14,282,000
Software developed for internal use	3 to 13 Years	17,087,000	17,210,000
Leasehold improvements	Term of Lease	11,088,000	12,172,000
		41,293,000	43,664,000
Less accumulated depreciation and amortization		(23,952,000)	(22,228,000)
Totals		\$ 17,341,000	\$ 21,436,000

In 2021 and 2020, the Association recognized a net loss of approximately \$522,000 and \$55,000 relating to the disposal of certain assets with original costs totaling \$3,733,000 and \$1,621,000, respectively.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$17,087,000 and \$17,210,000 as of December 31, 2021 and 2020, respectively. Related accumulated amortization as of December 31, 2021 and 2020 amounted to \$10,390,000 and \$8,810,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Software development costs in progress, for various case management applications, websites, and web applications, totaling \$115,000, were placed into service in 2021 and are being amortized over a period of three to six years. Additionally, the Association had software development costs in progress, inclusive of related software licenses, totaling \$1,838,000 as of December 31, 2021. When placed in service these costs will be included in capital assets and amortized over an estimated life of three to five years.

The Association had construction-in-progress totaling approximately \$1,298,000 as of December 31, 2021. These costs are primarily associated with leasehold improvements for office leases, which will be placed in service in 2022. When placed in service, these costs will be included in capital assets and amortized over the lives of the underlying leases. Construction-in-progress costs totaling \$294,000 in 2020 were placed in service in 2021.

NOTE 4 - POSTRETIREMENT BENEFIT PLAN:

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.

Estimated future benefit payments in each of the five years subsequent to December 31, 2021 and in the aggregate for the five years beginning in 2027 are as follows:

<u>January 1,</u>	<u>Healthcare Benefits</u>
2022	\$ 296,000
2023	290,000
2024	288,000
2025	316,000
2026	347,000
Years 2027 to 2031	2,086,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

For the healthcare benefit plan, the following tables set forth the plan's funded status and amounts recognized in the Association's consolidated financial statements at December 31, 2021 and 2020:

	Healthcare Benefits	
	2021	2020
Benefit obligation at December 31	\$ 12,251,000	\$ 13,273,000
Net unfunded status of the plan	\$ (12,251,000)	\$ (13,273,000)
Amounts recognized in the consolidated balance sheets consists of the following:		
Current liabilities	\$ 297,000	\$ 274,000
Noncurrent liabilities	11,954,000	12,999,000
Totals	\$ 12,251,000	\$ 13,273,000
Components of net periodic benefit cost and other amounts recognized in other changes in net assets		
Net periodic benefit cost:		
Service cost	\$ 58,000	\$ 59,000
Interest cost	329,000	355,000
Amortization of net actuarial loss	340,000	196,000
Net periodic benefit cost at December 31	\$ 727,000	\$ 610,000
Unrecognized net loss included in net assets	\$ 2,969,000	\$ 4,444,000
Employer's contribution	274,000	285,000
Plan participants' contributions	67,000	76,000
Net periodic benefit costs	727,000	610,000
Benefit payments	(341,000)	(361,000)
Amounts recognized in other changes in net assets in the statement of operations and changes in net assets consist of		
Net actuarial (gain)/loss	\$ (1,475,000)	\$ 1,338,000
Weighted-average assumptions to determine the benefit obligation as of December 31		
Discount rate	2.71%	2.50%
Rate of compensation increase	N/A	N/A
Pre- and post-mortality	RP-2014 Employee and Healthy Annuitant Tables and projected forward with Scale MP-2021	RP-2014 Employee and Healthy Annuitant Tables and projected forward with Scale MP-2020

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

	Healthcare Benefits	
	2021	2020
Weighted-average assumptions to determine the net benefit cost for the year ended December 31:		
Discount rate	2.50%	3.10%
Unrecognized actuarial loss:		
Beginning of year	\$ 4,444,000	\$ 3,106,000
Actuarial (gain)/loss	(1,135,000)	1,534,000
Amortization of net loss	(340,000)	(196,000)
End of year	<u>\$ 2,969,000</u>	<u>\$ 4,444,000</u>

The estimated net loss for the postretirement plan that will be amortized from net assets without donor restriction into net periodic benefit cost for the year 2022 is \$197,000.

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022. The rate was assumed to decrease gradually to 4.50% until 2032 and remain at that level thereafter.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

Lease commitments:

The Association conducts all of its activities from leased office space and is currently a party to various leases that expire between 2023 and 2034. Most of the leases provide for future escalation charges relating to real estate taxes and other building operating expenses. Rental expenses charged to operations amounted to \$9,391,000 and \$9,466,000 for the years ended December 31, 2021 and 2020, respectively. In addition, the Association leases certain furniture, computer equipment, and office equipment under various operating leases, all of which expire in 2022.

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, 2021 and thereafter are as follows:

Year Ending December 31,	Amount
2022	\$ 8,298,000
2023	8,549,000
2024	8,011,000
2025	6,181,000
2026	5,205,000
Thereafter	12,461,000
Total	<u>\$ 48,705,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

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, 2021, and 2020, advance deposits collected totaled \$159,726,000 and \$127,659,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The Association disbursed \$217,233,000 and \$157,419,000 in arbitrator compensation payments in 2021 and 2020.

Pursuant to various office space leases, the Association has letter of credit agreements totaling \$1,918,000 as of December 31, 2021 and 2020. 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 2021 and 2020.

NOTE 6 - AVAILABLE RESOURCES AND LIQUIDITY:

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments. Because the Association operates with a balanced budget that anticipates collecting sufficient revenue to cover general expenditures for the coming year, and because the Association's revenue sources are not generally cyclical in nature, liquidity needs have been determined to be approximately 60 days of cash operating expenses. Using the respective operating budget, desired liquidity for 2022 and 2021 was determined to be approximately \$17,226,000 and \$17,066,000, respectively. Amounts in excess of these needs are invested in a highly liquid diversified portfolio of mutual funds and exchange traded funds (ETFs) following an asset allocation strategy included in the Association's investment policy statements.

The Association has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and accounts receivable. In addition, the Association's governing board has designated a portion of its unrestricted resources as an operating reserve fund to mitigate risks that may impact the Association's financial sustainability and to serve as a long-term capital fund. The Board-designated fund was targeted at \$78,596,000 and \$77,866,000 at December 31, 2021 and 2020, respectively, with the President of the Association able to access up to an amount equal to 1% of the annual operating budget, or \$1,104,000 and \$1,092,000 in 2022 and 2021, respectively, for short-term needs. Although not expected to be needed, the remaining balance of the operating reserve fund is invested for long-term appreciation and current income but remains available to be spent with approval from the Board or its Executive Committee.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of providing alternative

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

As of December 31, 2021 and 2020, the following table shows the total financial assets held by the Association and the amounts of those financial assets that could readily be made available within one year of the consolidated balance sheets date to meet general expenditures:

	2021	2020
Financial assets at year-end		
Cash and cash equivalents – unrestricted	\$ 20,625,000	\$ 46,678,000
Restricted cash	4,556,000	4,919,000
Investments	354,499,000	258,404,000
Accounts receivable, net	26,526,000	18,765,000
Other receivables, net	851,000	954,000
Total financial assets at year-end	407,057,000	329,720,000
Less amounts not available to meet general expenditures		
Restricted cash	(4,556,000)	(4,919,000)
Cash held by AAA-ICDR Foundation	(1,204,000)	(2,234,000)
Investments related to deposits collected for panelist compensation	(159,726,000)	(127,659,000)
Investment assets securing letters of credit	(2,740,000)	(2,740,000)
AAA-ICDR Foundation investments	(7,832,000)	(4,323,000)
Board Designated Operating Reserve Fund, less 1% of annual operating budget available to be drawn by AAA President	(77,492,000)	(76,774,000)
Total financial assets available to meet general expenditures	\$ 153,507,000	\$ 111,071,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 7 - FUNCTIONAL EXPENSES:

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

For the years ended December 31, 2021 and 2020, the following tables show the total expenses of the Association by programs and management general and administrative expense:

	2021		
	Total	Programs	Management general and administrative
Salaries/benefits	\$ 79,049,000	\$ 74,801,000	\$ 4,248,000
Occupancy	9,391,000	9,189,000	202,000
Office expenses	3,114,000	2,990,000	124,000
Travel, conferences, and meetings	349,000	319,000	30,000
Professional fees	9,301,000	8,586,000	715,000
Information technology costs	3,210,000	3,082,000	128,000
Bad debt expense	160,000	160,000	–
Depreciation/amortization	4,935,000	4,789,000	146,000
Direct program costs	3,265,000	3,265,000	–
Other operating expenses	1,764,000	1,246,000	518,000
Total operating expenses	<u>\$ 114,538,000</u>	<u>\$ 108,427,000</u>	<u>\$ 6,111,000</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

NOTE 8 - RISKS AND UNCERTAINTIES:

In early 2020 and continuing into 2021, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred, including mandates from federal, state and local authorities, leading to an overall decline in economic activity. The Association is not able to estimate the length or severity of this outbreak and the related financial impact. The Association anticipates that this matter may impact the organization's financial position, results of operations, and cash flows, however, the aggregate effect of the financial impact and duration cannot be reasonably estimated at this time.



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