



AMERICAN
ARBITRATION
ASSOCIATION®

AAA-ICDR®
COUNCIL



Advancing the Future of Dispute Resolution

2022 Annual Report and Financial Statements

Our Shared Mission

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

Our Shared Vision

The American Arbitration Association will continue to be the global leader in conflict management—built on integrity, committed to innovation and embracing the highest standards of client service achievable 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, Equity 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, equity and inclusion in all aspects of the AAA's work.



President's Letter

Bridget M. McCormack
President & Chief Executive Officer

“Why are we so well positioned to soon enter our second century? Bench depth, a culture of innovation, and experience captured in rich data. We have a larger team than any arbitral organization, and a plan for empowering every one of them to drive innovation forward.”



Dear Stakeholders,

As you will see, 2022 was, once again, a productive year for the AAA-ICDR. To our staff and the AAA-ICDR Council, Board of Directors, and Roster: a well-deserved “congratulations.” You more than met the unique challenges of the past few years. And you proved that alternative dispute resolution is as adaptable as it is indispensable.

What a perfect coda for India Johnson, whose tenure as President and CEO recently drew to a close. She leaves me with so much to say about the AAA-ICDR's future, and I can't imagine a higher compliment than that. We all look forward to her continued service, as an Honorary Director—and as Chair of the AAA-ICDR Foundation®, a highlight of her legacy.


Our Foundation empowers organizations who share our vision for better dispute resolution and are making a difference worldwide.

Why are we so well positioned to soon enter our second century? Bench depth, a culture of innovation, and experience captured in rich data. We have a larger team than any arbitral organization, and a plan for empowering every one of them to drive innovation forward. We have more data than any arbitral organization, and a plan for learning even more from it. We have a diverse Roster with deep and broad experience, and a determination to support each arbitrator and mediator so they can continue to provide the very best service to parties. And we are committed to collaborating with our peer institutions to grow diversity, equity, and inclusion across our organization to continue to enhance dispute prevention and resolution for all.

When parties come to us with sophisticated needs, we have the know-how to deliver bespoke processes—technical and procedural. The AAA-ICDR's more than 40 active rules

sets range from the general (Commercial, Construction, Consumer, Employment, Labor, and International) to the specific (for healthcare payor-provider disputes, appellate arbitration, and Olympic sports disputes, among many others). The Association continues to partner with government to develop programs like those that help storm-ravaged communities or provide solutions for high-volume insurance caseloads for motorists. Our long-standing expertise in elections allows unions to make important decisions that impact the livelihoods of their members. Our Foundation empowers organizations who share our vision for better dispute resolution and are making a difference worldwide from Chicago to Abuja to Kyiv. The AAA-ICDR develops, refines, and encourages approaches to ADR that solve real problems.

We are equipped to lead in what's coming next in ADR. Generative AI is about to change the administration of justice in significant ways. We are confident that ultimately it will make our processes more efficient, more cost-effective, and more responsive to the parties' needs. Those are the goals of ADR, but we should never lose sight of why: **Resolving disputes improves lives—win, lose, or settle.** Arbitration, mediation, and negotiation have been with us for thousands of years. These processes are woven into the fabric of civilization. No matter how transformative new technology might be, ADR will still serve people, to help them resolve their differences, move forward, and get back to whatever it is they want to contribute to our world.



Bridget M. McCormack
President & Chief Executive Officer

Introduction

In 2022, the AAA-ICDR showed how adversity, while no one would wish for it, can nonetheless lead to growth and positive change. The AAA-ICDR is, in ways, a different and even stronger institution than it was at the end of 2019, when a multiyear global pandemic still lay ahead.

Most obvious is the persistence of virtual proceedings. In 2022, the Association's hearing facilities were fully open to case participants—and a great many arbitrations, mediations, and elections most certainly did proceed in person. Yet, even though parties were free to choose that format, the AAA-ICDR administered 7,832 virtual case events on 5,373 cases throughout the year. In addition, all New York State Insurance cases were conducted virtually in 2022.

It turns out that parties appreciate the flexibility of remote or hybrid arbitrations. They can have access to a broader, more diverse pool of arbitrators—including those with hard-to-find expertise. Further, Roster members have proved they can conduct a hearing as effectively from across the country as from across the room. With proceedings in different configurations likely here to stay, the AAA-ICDR has invested in even more new technology, like motion-tracking cameras for the benefit of those attending by video.

Given increased digitization of everything from witness examinations to exhibit “binders,” the AAA-ICDR has further sharpened its focus on cybersecurity. Many more of its arbitrators now have access to CaseShield by AAA-ICDR®, a virtual desktop that offers enterprise-level security protections, Microsoft 365, and cloud storage, as well as secure web access when working on their cases. And the Commercial Rules were revised in 2022 with, among other things, guidelines about discussing cybersecurity at the planning stage of each case.

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Over time, the Association has relied on learnings from once thousands and now millions of cases administered to devise fair, sensible procedures that work for parties. Insights from recent years, in a profoundly different environment, have been a catalyst for certain process enhancements. For instance, in 2022, arbitrators got new tools for managing preliminary hearings more effectively, and new administrative policies at the AAA-ICDR help to align the composition of the Roster with demand.

7,832

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In 2022, the need for compassion toward those at society's margins grew more acute. Senseless violence that continued to tear communities apart in the U.S. and armed conflicts around the world served as terrible, daily reminders that not nearly enough dispute resolution is done peacefully. The AAA-ICDR Foundation, which moved quickly to fund mediation support services for Ukrainian refugees, also refined its priorities, built a new website to amplify its grantees, and entered into a three-year commitment to provide substantial scholarships to law students at two Historically Black Colleges and Universities.

During the year, the AAA-ICDR community mourned the loss of former President and CEO William K. Slate, and celebrated India Johnson's decade-long tenure as President and CEO, as well as the election of Bridget M. McCormack, most recently Chief Justice of the Michigan Supreme Court, as the 19th leader in the organization's history.

Change is inevitable. What will remain constant is the AAA-ICDR's commitment to maximizing the benefits of dispute resolution for everyone. In 2022, the Association's executives returned enthusiastically to in-person events, including large national conferences, where they could share new perspectives on just how flexible and resilient ADR processes can be. The AAA-ICDR

Council and Board of Directors afforded executives a sweeping view of the latest developments and best thinking from the for-profit and non-profit sectors. Annual revenue grew yet again, reflecting how effective outreach and attention to customer satisfaction has been.

An annual report may be an opportunity to reflect, but the AAA-ICDR will always keep looking ahead. As the past few years have shown, predicting the future is impossible, but being prepared for whatever may come is not.

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ESG Efforts

The AAA-ICDR serves a global community, and the organization thinks broadly about ways it can contribute to a safer, fairer, and more harmonious society through its environmental, social, and governance (ESG) activities.

Starting in 2021, the organization reports on World Economic Forum “core” and “expanded” metrics and United Nations Sustainable Development Goals (SDGs) most relevant to its operations.

The AAA-ICDR takes seriously its responsibility to minimize harm to the environment.

The Association tries to mitigate the environmental impact of its operations. It promotes diversity and inclusion, as well as equitable treatment of staff, case participants, and other stakeholders. The AAA-ICDR Board, operating in a transparent and independent manner, sets the course and evaluates management’s progress against ambitious ESG goals.

Planet / Environment

The AAA-ICDR takes seriously its responsibility to minimize harm to the environment. Eight of its offices and data centers are in LEED-certified buildings. The organization embraces recycling for paper products it buys and disposes of, but also for office equipment. The AAA-ICDR has eliminated physical case files and released a new case-management feature that makes it easier for parties to submit and store filings and other case documents electronically. In 2022, the Association took in 38,312 electronic filings and processed 97,640 electronic payments.

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People

With over \$141 million in revenue, operating expenses totaling approximately \$124 million, and \$81 million paid as wages and benefits, the AAA-ICDR's operations have a significant financial impact. In addition, 2022 saw gross capital expenditures of \$2.3 million and more than \$2 million of financial and in-kind donations to organizations in surrounding communities. In 2022, 1,834 parties in cases administered by the AAA-ICDR demonstrated hardship and received \$903,840 in fee waivers. There were 5,561 registrants for free courses sponsored by the AAA-ICDR, and 53 individuals with demonstrated need received financial support that made it possible to attend fee-based remote and in-person courses.

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The AAA-ICDR's people are its most priceless asset. Many staff members have spent their entire careers at the organization, and that institutional and administrative knowledge

makes all the difference when building on what has come before. That is not idle talk. In 2022, the Association was once again among *The Nonprofit Times*' "Best Nonprofits to Work For," *Crain's New York Business*' "Best Places to Work in NYC," and A.J. Gallagher's "Best-in-Class Employers."

Independent annual survey data showed that 91% of employees are satisfied or very satisfied with the training, development, and resources the Association provides; 93% feel safety is a top priority with the company; and 97% feel physically safe in their work environment.

91%

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Governance

The AAA-ICDR Board of Directors, which is elected by and from the broader AAA-ICDR Council, has the independence to make the most of the external knowledge its members bring to the organization, and they perform their responsibilities in a transparent manner. The AAA-ICDR's attention to environmental and social responsibility is an example of that in action.

- **Voting AAA-ICDR Council members (80 individuals with backgrounds in business, law, and academia) serve as an advisory resource to management and elect the Board of Directors.**
- **The AAA-ICDR Board of Directors (17 members elected from the Council, 10 of which are independent and one of which is a current AAA-ICDR executive).**
- **ESG Subcommittee of the Board's Audit Committee (two members of which have significant experience in ESG).**
- **The Association's General Counsel and Chief Financial Officer maintain the organization's Enterprise Risk Management program and report on it to the Audit Committee and the full Board.**
- **The AAA-ICDR's Information Security and Privacy Committee, a group of senior executives, oversees an Information Security Program that assesses risks in this area and audits the performance of a sophisticated, multilayer cybersecurity infrastructure; frequent staff training and testing; and other safeguards.**



Diversity, Equity, and Inclusion

Being an ADR administrator puts the AAA-ICDR in a position to have an outsized, positive impact on diversity, equity, and inclusion in the field, and it has been at the forefront of those efforts for more than 50 years.

The Association may have concluded 2022 with 638 employees, but it has a much larger Roster of mediators and arbitrators who, in turn, serve an even larger number of case participants each year. Its educational programs and involvement in ADR-related conferences reach many thousands more. With ambitious goals and rigorous evaluation of progress, the AAA-ICDR maintains a diverse and inclusive environment for those who represent the organization, as well as for those who take advantage of its services and thought leadership.

This starts with the AAA-ICDR's people. In 2022, 44% of its employees identified as racially and/or ethnically diverse. In addition, 53% of AAA-ICDR Board members and 71% of Council members were women or racially and/or ethnically diverse.

In 2022, 41% of those newly added to the Roster were women or racially and/or ethnically diverse.

Three groups in particular at the AAA-ICDR help move these diversity and inclusion efforts forward. The Diversity, Equity & Inclusion Council Committee, featuring knowledgeable voices from outside the organization, advises on strategies to support those historically underrepresented in ADR. An internal Diversity Committee, comprised of AAA-ICDR

employees, manages initiatives and events to put those strategies into practice—both within the organization and in collaboration with external partners. Additionally, the I.D.E.A.S. E.R.G. (Inclusion, Diversity, Equity, Acceptance, and Support Employee Resource Group) focuses on AAA-ICDR staff, bringing them together to share their viewpoints while promoting sensitivity, understanding, and unity. It has an effect: According to a survey in 2022, 95% of staff feel the company enables a culture of diversity.

44%

44% of its employees identified as racially and/or ethnically diverse. In addition, 53% of AAA-ICDR Board members and 71% of Council members were women or racially and/or ethnically diverse.

Roster members, in serving as arbitrators and mediators on cases, are one important way in which the public experiences the AAA-ICDR. In 2022, 41% of those newly added to the Roster were women or racially and/or ethnically diverse, which increased the overall diversity of the Roster to 30%, a number that has steadily risen each year, from 26% in 2019.

As a result, parties have more choice in who hears their case. The AAA-ICDR has long had an organizational goal that 90% of the lists from which parties select arbitrators are at least 20% diverse. Year after year, the organization has exceeded those targets—and did so again in 2022, when 94% of those lists were at least 20% diverse. Lists have also consistently exceeded that 20% threshold by a large margin, so the AAA-ICDR raised the bar. Going forward, the goal is for 90% of lists to be at least 30% diverse.

More diverse lists lead to greater diversity in those actually selected by parties to hear cases. In 2022, 35% of those appointed as arbitrators and mediators were women or racially and/or ethnically diverse. That is up from 32% in 2021 and 31% in 2020.

The AAA-ICDR's long-term imperative to make ADR more open to all got a boost in 2022 with renewed opportunity to convene in person. The AAA Higginbotham Fellows Program, which started in 2009, assembles early-career ADR professionals from diverse backgrounds for a months-long course of self-directed study that culminates in four days of intensive, interactive—and in-person—training, followed by extended opportunities to seek mentorship. The Program welcomed 15 new Fellows in 2022, bringing the total number of alumni to 149. Importantly, the vast majority have gone on to serve on the Roster.

The AAA Diverse Student ADR Summit is instead geared toward those who have yet to start their careers in ADR. Over the course of a day and a half, the 19 participants for 2022—who were selected through a competitive application process—gathered to learn what it takes to be successful in the field.

Partnering with other organizations reinforces the message that diversity and inclusion should be a priority for everyone in ADR:

- **The National Bar Association is the nation's oldest and largest network of predominantly African-American lawyers and judges. The Association has collaborated with this organization for decades, and again in 2022 conducted interactive workshops at its Annual Convention for its members working as arbitrators and mediators.**
- **The National Association of Minority and Women Owned Law Firms (NAMWOLF) is committed to improving professional opportunity. The Association has, for years, worked with NAMWOLF on educational and recruiting initiatives.**
- **Annually, the American Bar Association's Commission on Women in the Profession honors several female lawyers with its Margaret Brent Awards. For years, the Association has been a sponsor of the luncheon ceremony held for recipients during the ABA's Annual Meeting.**

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Other examples of the AAA-ICDR's engagement on diversity and inclusion in 2022 are: sponsorship of the annual conferences of the National Asian Pacific American Bar Association, Minority Corporate Counsel Association, and Women in Construction, as well as the Hispanic National Bar Association Meeting. Presentations delivered by AAA-ICDR executives during the year addressed "Diversity, Inclusion, and the Elimination of Bias," "Sustainable Solutions to DEI Challenges in ADR," and "How Attorneys Can Join ADR Providers in Prioritizing Diversity."

AAA-ICDR Foundation

From its founding through the end of 2022, the AAA-ICDR Foundation has given nearly \$6 million in grants to dozens of organizations in the U.S. and abroad.

Taking stock of that critical mass of grant-making experience in 2022 led the Foundation to refine its priorities, which are to:



prevent and reduce violence, with a focus on vulnerable and underserved communities and police / social service partnerships;



bridge community conflict, with a focus on civil discourse seeking to mend societal divisions; and



support diversity, equity, and inclusion, with a focus on access to justice.

These priorities appear prominently on the Foundation's new website at aaaicdrfoundation.org

These priorities appear prominently on the Foundation's new website at aaaicdrfoundation.org and were evident in 2022 across four program areas:

Through the **Annual Grant Cycle**, \$740,000 in grants went to seven organizations, with an emphasis on improving police-community relations.

Two **Rapid Response Grants**, designed to address urgent crises as they arise, went to Mediators Beyond Borders International and Project Kesher, each for mediation training that will ultimately benefit those affected by the war in Ukraine.

Over \$1 million in **Special Initiatives Grants** went to four organizations that seek to improve civic discourse and prevent violence in at-risk communities.

Since 2020, the Foundation also has given in excess of \$150,000 in **Diversity Scholarships** to law students and professionals for fellowships, training, and attendance at conferences in ADR. In 2022, that giving expanded, with a three-year, \$300,000 commitment to fund larger scholarships for law school students at Howard University and North Carolina Central College, two Historically Black Colleges and Universities that offer certificates in dispute resolution.

Innovation and Information Services

In 2022, enhancements to the AAA-ICDR's technology infrastructure and digital presence included:



New AAA-ICDR Foundation website

Upgrades to the Association's websites—with a brand new AAA-ICDR Foundation website—and to its case administration platform.



The AAA-ICDR's cloud strategy

The launch of the AAA-ICDR's cloud strategy, including an upgraded document management system with enhanced features and an enterprise financial system with improved revenue recognition capabilities.



CaseShield remote desktop

Expanded access to the CaseShield remote desktop for any Roster member interested in cutting-edge security features typically available only to large enterprises.



AAA WebFile® mobile app

New customer-facing tools, including a mobile app for AAA WebFile and an online fee calculator.



Upgraded audiovisual equipment

Upgraded audiovisual equipment in the New York Headquarters, as well as the San Francisco and Philadelphia offices.

A Tribute to India Johnson

India Johnson joined the American Arbitration Association in 1974. During her tenure, she led its Atlanta office before serving as Senior Vice President and Chief Strategy Officer.

She was named President and CEO in 2013—the first woman to hold that office. She earned an undergraduate degree from the University of Miami and an MBA from Georgia State University.

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Johnson's tenure saw the organization emerge from the Global Financial Crisis with a restructuring of the AAA-ICDR's case management apparatus, a revamped online presence, and prioritization of technology that served the organization well with the move to remote hearings during the pandemic and in becoming a leading voice on the importance of cybersecurity in ADR. Initiatives that Johnson championed and brought to fruition included a national mediation program for car dealerships at a time when automobile manufacturers were under significant financial strain, as well as one for victims of Hurricane Katrina—which has served as a blueprint for the Association's responses to other natural disasters. Established in 2015, the AAA-ICDR Foundation has directed millions of dollars in grants to organizations addressing access to justice and community dispute resolution. In 2022, Johnson was named Chair of the Foundation and will continue in that role.

In her first President's Letter, Johnson identified a "need for transformation in very specific areas: elevating the skill level of our staff, re-establishing our local presence around the country, extending the reach of our marketing and advertising, placing greater emphasis on our international arm—the ICDR, and refining our strategies for the future." By any measure, those needs have been addressed.



Divisional Reports

Commercial Division

In-person hearings returned in 2022, and Commercial Division filings increased by 10%, with those for claims of \$1 million or more up by 6%. Healthcare, financial services (largely due to an increase in lender/debtor disputes), and technology caseloads all contributed to that growth.

Rulemaking was a major theme for the division in 2022, with the publication of updated Commercial Arbitration Rules and Mediation Procedures and Healthcare Payor Provider Rules. The division also engaged with stakeholders, through the versatility of virtual events, as well in-person gatherings in Napa Valley, San Francisco, Atlanta, Miami, Baltimore, New Orleans, and Washington, D.C.

160

The biennial Healthcare Dispute Resolution Innovation and Strategy Conference in Austin, Texas had 160 attendees, and 700 people viewed a new, four-part webinar on life sciences disputes.

The AAA sponsored the Association of Corporate Counsel's Annual Meeting in Las Vegas. The biennial Healthcare Dispute Resolution Innovation and Strategy Conference in Austin, Texas had 160 attendees, and 700 people viewed a new, four-part webinar on life sciences disputes. AAA executives also presented to law firms and bar associations and continue to serve in leadership positions with the ABA Health Law and Business Law Committees.

Rulemaking was a major theme for the division in 2022, with the publication of updated Commercial Arbitration Rules and Mediation Procedures and Healthcare Payor Provider Rules.

The AAA also sponsored conferences for the ABA's Tort Trial and Insurance Practice and Health Law Sections, while the Key Sector Energy Advisory Committee focused on outreach and parties' ability to identify Roster members with relevant experience. Topics addressed through the division's thought leadership efforts included cross-border life sciences and healthcare disputes, ADR in financial services, artificial intelligence in international arbitration, injunctions and restraining orders in business disputes, the 50th anniversary of Title IX, and the history of technology ADR.

+10%

Commercial Division filings increased by 10%.

+6%

Commercial Division filings of \$1 million or more increased by 6%.

New Commercial Rules

On September 1, the AAA published revised Commercial Arbitration Rules and Mediation Procedures for the first time since 2013. This was the culmination of a two-year process that incorporated feedback from case staff, parties, Roster members, and the Law and Practice and Large, Complex Case Committees of the AAA-ICDR Council.

On September 1, the AAA published revised Commercial Arbitration Rules and Mediation Procedures for the first time since 2013.

The Commercial Rules evolved from the Association's earliest rulemaking in the 1920s and 1930s and have undergone revisions over time to standardize administrative practices, improve efficiency, and respond to advances in technology. The 2022 revisions include:

- **Increased monetary thresholds for application of Expedited Procedures and Large, Complex Commercial Disputes, as well as for the use of three-arbitrator panels.**
- **A new requirement that parties and their representatives adhere to the AAA's *Standards of Conduct for Parties and Representatives*.**
- **Formalization of the Administrative Review Council's role in hearing challenges to arbitrator appointment**

and service, locale, and satisfaction of filing requirements in Large, Complex Commercial Disputes.

- **Expanded means by which a Demand or Submission may be filed and service may be effected.**
- **Extensive new rules on consolidation and joinder for more efficient administration of disputes with similar claims or multiple parties.**
- **New capabilities for arbitrators to set the method of hearing "including video, audio, or other electronic means when appropriate" and to limit the filing of dispositive motions.**
- **A provision that encourages parties and the arbitrator to discuss cybersecurity and data protection, as well as third-party insurance and funding, during the preliminary hearing.**
- **Explicit limitations on motion practice and multiple rounds of discovery under the Expedited Procedures.**

Amendments in 2022 to the AAA's Healthcare Payor Provider Rules, first introduced in 2011 through the efforts of the AAA's Healthcare Advisory Council, became effective on October 1 and feature a new meet-and-confer rule for the preliminary hearing while also incorporating many of the revised Commercial Rules.

Construction Division

Construction Division filings increased 14% in 2022 and continue to trend well above pre-pandemic levels.

The AAA remains deeply engaged with the construction industry through its National Construction Dispute Resolution Committee (NCDRC), with representatives from 28 leading construction industry and related organizations who advise the AAA on developments in the field. Since 2020, the committee has sponsored a Mentorship Program for new Roster members, fostering diversity and equipping construction industry professionals to be effective arbitrators and mediators through insights shared by seasoned Roster members. In 2022, the AAA also worked with the NCDRC to revise the Dispute Review Board Procedures, which were renamed the Dispute Avoidance and Resolution Board (DARB) Procedures and now reflect recent recommendations from stakeholders involved in the large “megaprojects” where this preemptive approach is common.

The AAA remains deeply engaged with the construction industry through its National Construction Dispute Resolution Committee (NCDRC).

For the first time since 2019, the AAA’s annual Construction Conference went forward in June as a live rather than remote event, with 223 construction lawyers, in-house counsel, and industry professionals from 25 states and three countries convening in New York City. The theme was “Effectively Preventing, Managing, and Presenting Construction Disputes in the ‘New Normal,’” with sessions covering evidence in disruption and delay cases, discovery, consolidation and joinder, and unique features of international disputes. The division also produced a webinar series on best practices for “Managing Construction Disputes in the Energy Industry.”

+14%

Construction Division filings increased 14% in 2022.

Division executives returned to a robust series of in-person events throughout the year and across the country, sponsoring four ABA Forum on Construction Law Meetings; the National Society of Professional Engineers Annual Conference; the Society of Construction Law North America Annual Conference; the Women in Construction Conference; the 36th annual Construction SuperConference; and a myriad of regional, local, and virtual events.



Labor, Elections, Employment, Consumer, Pro Se, and MNNF

Labor

In 2022, 1,108 Labor hearings proceeded virtually—192 of them with logistical support from AAA case staff. In a continued effort to refine the composition of its Roster, 42% of Labor arbitrators added to the Roster in 2022 were diverse. Those who administer the division's Labor caseload also engaged with more than two dozen outside organizations at both the national and regional levels and produced two newsletters for advocates and three for arbitrators, as well as 23 live webinars in five topical areas:

- “Off-Duty Misconduct in a Tech-Changed Workplace”
- “Solving the Puzzle of ‘Just Cause’ in Arbitration”
- “Direct and Cross Examination in Labor Arbitration”
- “Understanding and Defending ‘Past Practice’ Issues in Labor Arbitration”
- “Labor Grievance Processing”

1,108

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Employment

In 2022, 42% of Employment arbitrators added to the Roster were diverse, matching the proportion for new Labor arbitrators. The division developed two trainings for advocates: “Key Ingredients for a Successful Employment Arbitration” and a mock employment arbitration hearing, as well as two editions of *Employment Arbitration News*. Division staff collaborated with the Labor Employment Relations Association (LERA) through presentations, panel discussions, and participation in its national and local programs—with several AAA employees holding leadership positions.

The division sponsored the Annual Conference for the National Bar Association's Labor and Employment Section and the American Bar Association's Labor and Employment Conference. It also provided support to and attended the North American HR Executive Summit and attended several conferences held by the Society for Human Resource Management.

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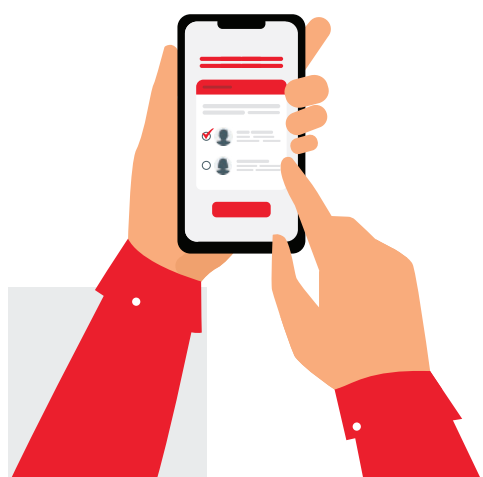
Elections

The Elections Department administered 245 elections in 2022, affording unions and various organizations the flexibility for their members to participate in a variety of voting platforms. Nearly half of these elections took place remotely, with 25,713 votes cast online and 3,724 via telephone. The remaining 135 elections were conducted through more traditional in-person and mail-in formats, with over 1.3 million ballots mailed or issued in 2022.

Online Votes

25,713

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Consumer

In 2022, the AAA's Consumer Department took in 14,971 filings, and among them were 4,179 that were grouped as multiple case filings.

With those being such a significant component of filings in 2022, a new application programming interface (API) went online to streamline the process for parties and their representatives. Exhibiting the best features of ADR—early, efficient, cost-effective resolution of disputes—two of the larger multiple case filings settled and were closed in 2022. Usage of the Association's Online Settlement Tool increased 43%, with parties submitting 1,226 offers and counteroffers across 756 cases. Staff produced several educational videos that explain how arbitrators are appointed and the capabilities of the Online Settlement Tool, as well as trainings on California-specific statutes that apply in consumer-related arbitrations.

Online Settlement Tool

+43%

Usage of the Association's Online Settlement Tool increased 43%.

Pro Se

For the seventh straight year, the Pro Se Case Administration Team saw caseload growth, largely due to the volume of Consumer filings, which made up nearly 90% of the almost 8,000 pro se cases. Adding to a long history of advising state governments on special dispute resolution programs, the Association was once again awarded North Carolina's Disaster Mediation Program by the state's Department of Insurance.

8,000

The Pro Se Case Administration Team saw caseload growth, largely due to the volume of Consumer filings, which made up nearly 90% of the almost 8,000 pro se cases.

New educational videos produced for the public included one explaining how parties in small claims disputes can opt out of consumer arbitration, and new language in correspondence sent during cases makes a process that may be entirely unfamiliar to a non-lawyer easier to understand.

The Association was once again awarded North Carolina's Disaster Mediation Program by the state's Department of Insurance.

Minnesota No-Fault

In 2022, the Association worked closely with the Minnesota Supreme Court and its No-Fault Standing Committee on several rule and procedural changes aimed at the efficiency and integrity of arbitration, such as a mandatory online administration process for customers and arbitrators through the AAA WebFile and Panelist eCenter® platforms.



AAA New York State Insurance Division (NYSI)

In 2022, case activity for the AAA New York State Insurance Division (NYSI) continued to grow. No-fault automobile insurance filings increased 8.6% as compared to the previous year, with 440,862 cases representing \$975 million in initial claims.

The division's 178 arbitrators conducted 142,089 no-fault hearings, 3.8% more than in 2021. Filings on this caseload have increased 52% since 2017, and the conciliation rate remained stable at approximately 50%, with an average settlement amount in conciliation of \$1,051. The average disputed amount across all no-fault cases was \$2,207, showing that efficiency is of particular importance for these cases.

To streamline filing while also increasing cybersecurity, the Association introduced online filing via its Simple File platform to the insurance community in 2022. Once again in 2022, all NYSI case proceedings were conducted virtually, giving parties easy access to arbitrators from across the state.

Thanks to the significant efforts of AAA staff and New York State arbitrators, the average time to award was 12 months, a substantial improvement from the 15 months for cases closed in 2021.

The Supplemental Underinsured/Uninsured Motorists (SUM) program also saw increases in filings (by 12%) and settlements (by 47%).

Despite high inflation and growing labor costs, the AAA's attention to cost management and leveraging of technology resulted in the cost per case rising only 1.2% for no-fault arbitrations—and declining by 20% for conciliation and by 6% for SUM cases. The continued success of the NYSI program reflects the ongoing support of the New York State Department of Financial Services (DFS), a hard-working panel of arbitrators, parties who were eager to achieve resolution, and dedicated AAA staff focused on continued innovation that anticipates the evolving insurance ADR landscape.

No-Fault Hearings

142,089

The division's 178 arbitrators conducted 142,089 no-fault hearings, 3.8% more than in 2021.

International Centre for Dispute Resolution

755 international cases were filed with the AAA-ICDR in 2022, a 10% increase over the prior year. Technology, financial services, and entertainment caseloads were strong contributors to that growth.

The International Centre for Dispute Resolution (ICDR)'s Case Management Centre in Singapore continued to engage with stakeholders in Asia and other parts of the world by hosting or participating in over 30 events with attendees from around the world. In-person events took place in South Korea, India, and Dubai despite the pandemic's lingering impact in Asia. In conjunction with Singapore Convention Week, organized by the Singapore Ministry of Law, the ICDR held a highly regarded masterclass for complex mediations.

The ICDR's successful collaboration with AAA colleagues on various projects, for example the Commercial Division's engagement with the life sciences field and the Construction Division's revisions to the Dispute Avoidance and Resolution Board (DARB) Procedures, leveraged those efforts by expanding their exposure to international parties. Additionally, the AAA-ICDR's agreement with the Department of Commerce to administer arbitrations commenced by individuals from the European Union who allege violations of certain data protection requirements was extended for five years.

In addition, a partnership between legal publisher Jus Mundi and the ICDR will result in the broader availability of certain ICDR arbitration awards. Article 40, added to the ICDR's International Arbitration Rules, in 2021, permits publication of "selected awards, orders, decisions, and rulings" with details removed that would otherwise identify the parties, unless a party objects in a timely manner. Awards to be published first undergo a multi-stage review process with Jus Mundi. This approach strikes a balance between parties' expectations of confidentiality in arbitration and the educational value of these materials.

After an extensive and detailed study, the ICDR also published its first Guidelines on the use of Arbitral Tribunal Secretaries, which reflect leading international tribunal secretary practices. The Guidelines are already effective in all cases administered by the ICDR.

+10%

International filings increased 10% in 2022.

AAA Mediation.org[®]

When people learn about mediation, it sells itself. In 2022, the AAA-ICDR administered 491 “step” mediations, meaning that parties agreed to mediation in an attempt to avoid proceeding to arbitration.

In mediation, both sides get to be heard and retain control over the outcome. The process is designed to soften acrimony, leaving open the possibility that parties can work together in the future rather than parting ways for good.

In 2022, AAA Mediation.org took advantage of virtual and in-person touchpoints to spread this message, presenting at annual conferences for the American Bar Association Dispute Resolution Section, the National Bar Association, the Florida Dispute Resolution Center, the Southern California Mediation Association, and many others. Students at Arizona State University, Pepperdine University, the University of Pennsylvania, and the University of LaVerne got to hear more about mediation and ADR through a guest lecture series.

Training for New York Unified Court System settlement judges and court staff done in conjunction with the Early Dispute Resolution Institute familiarized attendees with innovative analytical settlement tools. A new two-day advanced global mediation and advocacy workshop for international practitioners, which was also developed during the year.

In addition to producing educational video podcasts and hybrid live/remote trainings on impasse management and “soft skills,” the division’s “Mediation Mind Shifts” series featured articles on honing specific mediation skills. With the AAA-ICDR Council’s Mediation Advisory Committee, the division also launched four studies that will yield proposals for making mediation an even more attractive alternative to adversarial processes.

“Step” Mediations

491

In 2022, the AAA-ICDR administered 491 “step” mediations, meaning that parties agreed to mediation in an attempt to avoid proceeding to arbitration.

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Underwood Arbitration
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2022 Annual Report and Financial Statements



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AMERICAN ARBITRATION ASSOCIATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, and the related consolidated statements of activities 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, 2022 and 2021, 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 Consolidated 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 Consolidated 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 Consolidated 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

INDEPENDENT AUDITOR'S REPORT (CONT.)

from 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

May 2, 2023

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 17,152,000	\$ 20,625,000
RESTRICTED CASH	4,104,000	4,556,000
INVESTMENTS - At Fair Value	295,115,000	354,499,000
ADMINISTRATION FEES RECEIVABLE, Less allowances for cancellations and uncollectible accounts of \$574,000 in 2022 and \$451,000 in 2021	37,753,000	26,526,000
OTHER RECEIVABLES	1,262,000	851,000
PREPAID EXPENSES	4,395,000	4,614,000
RIGHT-OF-USE ASSET - Net	33,924,000	37,641,000
INTERNAL-USE SOFTWARE DEVELOPMENT AND CONSTRUCTION IN PROGRESS	1,055,000	3,136,000
FURNISHINGS, EQUIPMENT, IT SYSTEMS AND LEASEHOLD IMPROVEMENTS - Net	16,786,000	17,341,000
TOTAL ASSETS	<u>\$ 411,546,000</u>	<u>\$ 469,789,000</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 197,609,000	\$ 210,259,000
Operating lease liability	39,072,000	42,575,000
Accrued postretirement medical costs	7,799,000	12,251,000
Agency fund	4,104,000	4,556,000
Deferred revenue	47,046,000	69,837,000
Total Liabilities	<u>295,630,000</u>	<u>339,478,000</u>
Commitments and Contingencies		
NET ASSETS:		
Without donor restrictions:		
Undesignated	4,127,000	51,715,000
Board Designated	111,789,000	78,596,000
Total without donor restrictions	<u>115,916,000</u>	<u>130,311,000</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 411,546,000</u>	<u>\$ 469,789,000</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES
IN NET ASSETS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Administration fees earned:		
Commercial	\$ 91,823,000	\$ 81,110,000
State insurance	36,476,000	38,568,000
Labor	3,791,000	4,175,000
Elections	8,140,000	3,522,000
Totals	140,230,000	127,375,000
Publications and education	822,000	1,067,000
Other operating income	1,192,000	1,477,000
Totals	142,244,000	129,919,000
OPERATING EXPENSES		
Administration of tribunals	108,913,000	103,150,000
Elections	7,154,000	3,896,000
Publications and education	1,604,000	1,381,000
General and administration	6,260,000	6,111,000
Totals	123,931,000	114,538,000
Net Operating Income	18,313,000	15,381,000
NON-OPERATING INCOME AND EXPENSES		
Investment return, net	(37,439,000)	13,640,000
Gain (loss) on disposal of assets	18,000	(522,000)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE POSTRETIREMENT MEDICAL OBLIGATION ADJUSTMENT	(19,108,000)	28,499,000
Postretirement medical obligation adjustment	4,713,000	1,475,000
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(14,395,000)	29,974,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	130,311,000	100,337,000
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 115,916,000	\$ 130,311,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (14,395,000)	\$ 29,974,000
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,997,000	4,935,000
Non-cash operating lease costs	6,920,000	7,280,000
Bad debt and change in provisions for uncollectible accounts	429,000	160,000
Net realized and unrealized loss (gain) on investments	41,923,000	(8,248,000)
(Gain)/Loss on disposal of assets	(18,000)	522,000
Changes in operating assets and liabilities:		
Increase in administration fees receivable	(11,656,000)	(7,921,000)
(Increase)/Decrease in other receivables	(411,000)	103,000
Decrease/(Increase) in prepaid expenses	219,000	(703,000)
(Decrease)/Increase in accounts payable and accrued expenses	(12,650,000)	35,537,000
Decrease in operating lease liability	(7,270,000)	(7,258,000)
Decrease in accrued postretirement medical costs	(4,452,000)	(1,022,000)
Decrease in agency fund	(452,000)	(363,000)
(Decrease)/Increase in deferred revenue	(22,791,000)	12,524,000
Net cash (used in) provided by operating activities	(19,607,000)	65,520,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furnishings, equipment, technology and leasehold improvements	(1,774,000)	(953,000)
Proceeds from sale of assets	687,000	-
Proceeds from sale of investments	142,956,000	15,546,000
Purchase of investments	(125,495,000)	(103,393,000)
Internal-use software development and construction in progress	(692,000)	(3,136,000)
Net cash provided by (used in) investing activities	15,682,000	(91,936,000)
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(3,925,000)	(26,416,000)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	25,181,000	51,597,000
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 21,256,000	\$ 25,181,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Internal-use software development costs in progress and construction-in-progress transferred to furnishings, equipment, technology and leasehold improvements	\$ 2,773,000	\$ 409,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.

New accounting pronouncement:

The Association adopted Accounting Standards Update 2016-02 (as amended), *Leases* ("Topic 842") on January 1, 2022 and elected to adjust comparative periods under the modified retrospective transition approach. Topic 842 requires lessees to recognize a right-of-use asset and a corresponding lease liability for virtually all leases. The Association elected and applied the package of practical expedients permitting the Association to not reassess (i) the lease classification of existing leases, (ii) whether existing and expired contracts are or contain leases, and (iii) initial direct costs for existing leases when initially adopting Topic 842. In addition, the Association has elected and applies the practical expedient to combine non-lease components with their related lease components and account for them as a single combined lease component.

The Association made the following adjustments as of the earliest comparative period in connection with transitioning to Topic 842:

	As of January 1, 2021
Operating lease right-of-use asset	\$ 44,921,000
Operating lease liability	\$ 49,833,000

The Association's adoption of Topic 842 also resulted in a decrease of \$4,912,000 in deferred rent, which was reclassified as a reduction to the operating lease right-of-use assets at January 1, 2021. The adoption of Topic 842 did not have an impact on the Association's net assets for the years ended December 31, 2022 and December 31, 2021.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

(“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. Unless prepayment is required by law or regulation, 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 December 31, 2022 and 2021 of \$280,000 and \$438,000, respectively, which is included in the accompanying consolidated balance sheets and represents the estimated amount of future refunds. Deferred revenue related to initial filing fee for commercial cases at January 1, 2021 was \$383,000.

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. 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 \$44,676,000 and \$67,785,000 as of December 31, 2022 and 2021, respectively, which is included in the accompanying consolidated balance sheets. Deferred revenue from administration fees at January 1, 2021 was \$55,315,000.

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, 2022 and 2021, deferred revenue from education and services revenue of \$258,000 and \$87,000, respectively, is included in deferred revenue in the accompanying consolidated balance sheets. Deferred revenue from education and services revenue at January 1, 2021 was \$207,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, payments received in advance of the start of the assessment year totaling \$561,000 and \$562,000, respectively, are included in deferred revenue in the accompanying consolidated balance sheets. Deferred revenue for payments received in advance of the start of the assessment year at January 1, 2021 was \$439,000.

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, 2022 and 2021, such deposits received in advance of demands for arbitration being filed totaling \$1,271,000 and \$965,000, respectively, are included in deferred revenue in the accompanying consolidated balance sheets. Deferred revenue for deposits received in advance of demands for arbitration being filed at January 1, 2021 was \$969,000.

As of December 31, 2022 and 2021, administration fees receivable, net amounted to \$37,753,000 and \$26,526,000, respectively. At January 1, 2021, administration fees receivable, net was \$18,765,000.

Measure of operations:

The Association includes, in its definition of operations, all revenues and expenses that are an integral part of its programs and supporting activities. Net investment return, gain and losses on disposal of assets, postretirement medical obligation adjustments, and nonrecurring items of revenue and expenses are reported as part of non-operating activities.

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 \$17,152,000 and \$20,625,000 as of December 31, 2022 and 2021, 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:

	2022	2021
Cash and cash equivalents	\$ 17,152,000	\$ 20,625,000
Restricted cash	4,104,000	4,556,000
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 21,256,000</u>	<u>\$ 25,181,000</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022 and 2021 is \$4,104,000 and \$4,556,000, 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 \$34,354,000 and \$34,900,000 as of December 31, 2022 and 2021, 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, gains or losses realized on sale of investments, interest, dividends, and investment fees are reported as investment return, net in the consolidated statements of activities 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, 2022 AND 2021

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, 2022 and 2021. The Association's Federal and state income tax returns prior to fiscal year 2019 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, 2022 and 2021. Management has analyzed the tax positions taken by the Association and has concluded that, as of December 31, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

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, 2022 and 2021.

An operating reserve fund designated by the Board totaled \$111,789,000 and \$78,596,000 as of December 31, 2022 and 2021, 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. Effective February 24, 2022, the operating reserve increased to twelve months of operating expenses. There were no expenditures from the operating reserve fund in both 2022 and 2021.

Subsequent events:

The Association has evaluated subsequent events through May 2, 2023, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

NOTE 2 - INVESTMENTS:

Investments at December 31, 2022 and 2021 consist of the following:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Short Term Bond funds	\$ 93,104,000	\$ 87,968,000	\$ 126,951,000	\$ 125,524,000
Intermediate Term Bond funds	93,551,000	79,909,000	83,028,000	82,120,000
Inflation-Protected Bond funds	6,397,000	5,751,000	8,087,000	8,695,000
High Yield Bond funds	16,597,000	15,168,00	17,762,000	17,937,000
Emerging Markets Bond funds	9,943,000	7,816,000	9,137,000	9,016,000
International Equities funds	9,009,000	10,734,000	16,302,000	20,816,000
U.S. Equities funds	43,023,000	40,706,000	60,936,000	72,295,000
Emerging Markets Equities funds	2,605,000	2,621,000	3,866,000	5,146,000
Real Estate Investment Trust funds	6,478,000	5,966,000	7,495,000	9,323,000
Cash/Money Market funds	38,476,000	38,476,000	3,627,000	3,627,000
Totals	<u>\$ 319,183,000</u>	<u>\$ 295,115,000</u>	<u>\$ 337,191,000</u>	<u>\$ 354,499,000</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, 2022 and 2021 were \$2,359,000 and \$2,865,000, 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, 2022 AND 2021

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, 2022 and 2021.

Financial assets carried at fair value at December 31, 2022 and 2021 are classified as Level 1.

Investments in mutual funds, which account for all of the Association's investment holdings at December 31, 2022 and 2021, 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	2022	2021
Furnishings and equipment	7 to 10 Years	\$ 13,873,000	\$ 13,118,000
Software developed for internal use	3 to 13 Years	19,437,000	17,087,000
Leasehold improvements	Term of Lease	11,691,000	11,088,000
		45,001,000	41,293,000
Less accumulated depreciation and amortization		(28,215,000)	(23,952,000)
Totals		\$ 16,786,000	\$ 17,341,000

Depreciation and amortization expense totaled \$4,997,000 and \$4,935,000 for the years ended December 31, 2022 and 2021, respectively.

The Association recognized a net gain of \$18,000 in 2022 and a net loss of \$522,000 in 2021 relating to the disposal of certain assets with original costs totaling \$1,329,000 and \$3,733,000.

Included in fixed assets are capitalized costs associated with the development of software for internal use of \$19,437,000 and \$17,087,000 as of December 31, 2022 and 2021, respectively. Related accumulated amortization as of December 31, 2022 and 2021 amounted to \$10,511,000 and \$10,390,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Software development costs in progress, for various case management applications, websites, and web applications, totaling \$1,475,000, were placed into service in 2022 and are being amortized over a period of three to five years. Additionally, the Association had software development costs in progress, inclusive of related software licenses, totaling \$870,000 as of December 31, 2022. When placed in service these costs will be included in capital assets and amortized over an estimated life of three to four years.

The Association had construction-in-progress totaling approximately \$185,000 as of December 31, 2022. These costs are primarily associated with leasehold improvements for office leases, which will be placed in service in 2023. 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 \$1,298,000 in 2021 were placed in service in 2022.

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, 2022 and in the aggregate for the five years beginning in 2028 are as follows:

<u>January 1,</u>	<u>Healthcare Benefits</u>
2023	\$ 309,000
2024	295,000
2025	311,000
2026	339,000
2027	358,000
Years 2028 to 2032	2,025,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022 and 2021:

	Healthcare Benefits	
	2022	2021
Benefit obligation at December 31	\$ 7,799,000	\$ 12,251,000
Net unfunded status of the plan	\$ (7,799,000)	\$ (12,251,000)
Amounts recognized in the consolidated balance sheets consists of the following:		
Current liabilities	\$ 309,000	\$ 297,000
Noncurrent liabilities	7,490,000	11,954,000
Totals	\$ 7,799,000	\$ 12,251,000
Components of net periodic benefit cost and other amounts recognized in other changes in net assets		
Net periodic benefit cost:		
Service cost	\$ 32,000	\$ 58,000
Interest cost	328,000	329,000
Amortization of net actuarial loss	197,000	340,000
Net periodic benefit cost at December 31	\$ 557,000	\$ 727,000
Unrecognized net (gain) loss included in net assets	\$ (1,744,000)	\$ 2,969,000
Employer's contribution	296,000	274,000
Plan participants' contributions	66,000	67,000
Net periodic benefit costs	558,000	727,000
Benefit payments	(362,000)	(341,000)
Amounts recognized in other changes in net assets in the statement of activities and changes in net assets consist of:		
Net actuarial gain	\$ (4,713,000)	\$ (1,475,000)
Weighted-average assumptions to determine the benefit obligation as of December 31:		
Discount rate	4.94%	2.71%
Rate of compensation increase	N/A	N/A
Pre-and post-mortality	RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2021 for all years	RP-2014 Employee and Healthy Annuitant Tables adjusted back to 2006 and projected forward with Scale MP-2021 for all years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

	Healthcare Benefits	
	2022	2021
Weighted-average assumptions to determine the net benefit cost for the years ended December 31:		
Discount rate	2.71%	2.50%
Unrecognized actuarial loss:		
Beginning of year	\$ 2,969,000	\$ 4,444,000
Actuarial gain	(4,516,000)	(1,135,000)
Amortization of net loss	(197,000)	(340,000)
End of year	\$ (1,744,000)	\$ 2,969,000

The estimated net gain for the postretirement plan that will be amortized from net assets without donor restrictions into net periodic benefit cost for the next fiscal year is \$305,000.

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2023. The rate was assumed to decrease gradually to 4.50% until 2033 and remain at that level thereafter.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

Lease commitments:

The Association leases building space and office equipment. All contracts that implicitly or explicitly involve property, plant and equipment are evaluated to determine whether they are or contain a lease.

At lease commencement, the Association recognizes a lease liability, which is measured at the present value of future minimum lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for any prepaid lease costs, initial direct costs and lease incentives. The Association has elected and applies the practical expedient to combine non-lease components with their related lease components and account for them as a single combined lease component for all its leases. The Association remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in the amount of future lease payments, but only when such changes do not qualify to be accounted for as a separate contract.

The Association determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. As the rate implicit in the lease is generally not readily determinable, as a practical expedient, the Association elected to use the risk-free rate for leases related to building space and office equipment.

For accounting purposes, the Association's leases commence on the earlier of (i) the date upon which the Association obtains control of the underlying asset or (ii) the contractual effective date of a lease. Lease commencement for most of the Association's leases coincides with the contractual effective date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

The Association's leases generally have minimum base terms with renewal options or fixed terms with early termination options. Such renewal options are exercisable at the option of the Association and, when exercised, usually provide for rental payments during the extension period at then current market rates or at pre-determined rental amounts. Unless the Association determines that it is reasonably certain that the term of a lease will be extended, such as through the exercise of a renewal option or non-exercise of an early termination option, the term of a lease begins at lease commencement and spans for the duration of the minimum non-cancellable contractual term. When the exercise of a renewal option or non-exercise of early termination option is reasonably certain, the lease term is measured as ending at the end of the renewal period or on the date an early termination may be exercised.

Leases of office locations have lease terms that generally range from 5 to 12 years. Rental payments on these leases typically provide for fixed minimum payments that increase over the lease term at predetermined amounts. Variable lease payments are expensed as incurred.

Equipment leases have lease terms that generally range from less than one year to five years. Rental payments on these leases typically provide for fixed minimum payments that increase over the lease term at predetermined amounts, are included in the measurement of lease payments, and are included in the measurement of lease liabilities.

For the years ended December 31, 2022 and 2021, rent expense totaled \$7,765,000 and \$7,497,000, respectively.

The rental costs of operating leases are included in operating expenses in the Association's consolidated statement of activities and changes in net assets.

Supplemental cash flow information related to the Association's operating leases for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Cash paid for amounts included in the measurement of operating lease liability	\$ 8,115,000	\$ 7,475,000
Addition to right-of-use asset	\$ 3,767,000	\$ -

Weighted average remaining lease term and weighted average discount rate for the Association's operating leases as of December 31:

	2022	2021
Weighted average remaining term (in years)	5.88	5.92
Weighted average discount rate	0.91%	0.61%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Annual maturity analysis of the Association's operating lease liability as of December 31, 2022:

2023	\$	8,521,000
2024		8,372,000
2025		6,218,000
2026		5,125,000
2027		4,880,000
Thereafter		7,497,000
Total minimum lease payments		40,613,000
Less: present value discount		1,541,000
Total operating lease liability		39,072,000
Less: deferred rent		5,148,000
Total operating lease right-of-use asset	\$	33,924,000

Contingencies:

The Association is a defendant in certain lawsuits arising in the ordinary course of business. While the outcome of lawsuits or other proceedings against the Association cannot be predicted with certainty, the Association does not expect that those matters will have a material adverse effect on its consolidated financial position.

The Association bills and collects amounts in advance for unearned arbitrators' compensation. At December 31, 2022, and 2021, advance deposits collected totaled \$153,273,000 and \$159,726,000, respectively. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. The Association disbursed \$195,506,000 and \$217,233,000 in arbitrator compensation payments in 2022 and 2021.

Pursuant to various office space leases, the Association has letter of credit agreements totaling \$1,918,000 as of December 31, 2022 and 2021. 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 2022 and 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 2023 and 2022 was determined to be approximately \$18,376,000 and \$17,226,000, 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 \$111,789,000 and \$78,596,000 at December 31, 2022 and 2021, respectively, with the President of the Association able to access up to an amount equal to 1% of the annual operating budget, or \$1,165,000 and \$1,104,000 in 2023 and 2022, respectively, for short-term needs. Although not expected to be needed, the remaining balance of the operating reserve fund is invested for long-term appreciation and current income but remains available to be spent with approval from the Board or its Executive Committee.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing activities of providing alternative dispute resolution services, elections, and education to be general expenditures. A portion of the investments balance, equal to the amount collected in advance for unearned arbitrator and mediator compensation as reflected in Note 5 and the table below, is not included in the analysis. Those funds are expected to be available for payment to arbitrators and mediators as case hearings are completed, or refunded to parties to cases if unused, and are not available to meet current operating needs. Also excluded from the analysis are assets held by the AAA-ICDR Foundation, a separately incorporated 501(c)(3) entity whose financial results are included in the Association's consolidated financial statements. Though without donor restrictions, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

As of December 31, 2022 and 2021, 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:

	2022	2021
Financial assets at year-end		
Cash and cash equivalents - unrestricted	\$ 17,152,000	\$ 20,625,000
Restricted cash	4,104,000	4,556,000
Investments	295,115,000	354,499,000
Accounts receivable, net	37,753,000	26,526,000
Other receivables, net	1,262,000	851,000
Total financial assets at year-end	355,386,000	407,057,000
Less amounts not available to meet general expenditures		
Restricted cash	(4,104,000)	(4,556,000)
Cash held by AAA-ICDR Foundation	(2,158,000)	(1,204,000)
Investments related to deposits collected for panelist compensation	(153,273,000)	(159,726,000)
Investment assets securing letters of credit	(2,740,000)	(2,740,000)
AAA-ICDR Foundation investments	(6,827,000)	(7,832,000)
AAA-ICDR Foundation investments Board Designated Operating Reserve Fund, less 1% of annual operating budget available to be drawn by AAA President	(110,624,000)	(77,492,000)
Total financial assets available to meet general expenditures	\$ 75,660,000	\$ 153,507,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, the following tables show the total expenses of the Association by programs and management general and administrative expense:

	2022		
	Total	Programs	Management general and administrative
Salaries/benefits	\$ 80,718,000	\$ 76,439,000	\$ 4,279,000
Occupancy	8,583,000	8,371,000	212,000
Office expenses	3,824,000	3,649,000	175,000
Travel, conferences, and meetings	1,295,000	1,151,000	144,000
Professional fees	9,580,000	9,031,000	549,000
Information technology costs	3,902,000	3,709,000	193,000
Bad debt expense	429,000	429,000	—
Depreciation/amortization	4,997,000	4,846,000	151,000
Direct program costs	8,423,000	8,423,000	—
Other operating expenses	2,180,000	1,623,000	557,000
Total operating expenses	<u>\$ 123,931,000</u>	<u>\$ 117,671,000</u>	<u>\$ 6,260,000</u>

	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>