The Alberta Lawyers Insurance Association

Non-consolidated Financial Statements
June 30, 2009

PRICEWATERHOUSECOOPERS

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December 4, 2009

Auditors' Report

To the Directors of
The Alberta Lawyers Insurance Association

We have audited the non-consolidated balance sheet of **The Alberta Lawyers Insurance Association** as at June 30, 2009 and the non-consolidated statements of revenue, expenses and net assets and non-consolidated cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

The Alberta Lawyers Insurance Association

Non-consolidated Balance Sheet

As at June 30, 2009

	2009 $	2008 $
Assets		
Current assets		
Cash and cash equivalents	12,600,235	12,413,690
Accounts receivable	5,502,760	4,368,342
Accrued interest	348,750	380,546
Due from The Law Society of Alberta (note 8)	58,783	69,069
Due from 1452597 Alberta Ltd. (note 8)	571,311	-
	19,081,839	17,231,647
Investments (note 4)	80,146,107	89,168,963
Capital assets (note 5)	28,837	21,053
	99,256,783	106,421,663
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	1,263,333	720,070
Deferred revenue	14,758,477	9,983,978
	16,021,810	10,704,048
Reserve for claims and related costs (note 6)	46,027,000	45,147,000
Net assets		
Unrestricted	37,207,953	50,570,595
Share capital (note 7)	20	20
	37,207,973	50,570,615
	99,256,783	106,421,663

Approved by the Board of Directors

_________________________ Director _________________________ Director

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2009

	2009 $	2008 $
Revenue		
Annual levy	10,473,951	10,943,738
Investment income	4,648,147	3,808,850
	15,122,098	14,752,588
Expenses		
Provision for claims and related costs (note 6)	15,184,086	13,291,075
Premium paid to Canadian Lawyers Insurance Association	2,721,460	2,755,392
Salaries and employee benefits	1,285,131	1,315,296
Management fee (note 8)	987,768	922,926
Investment counsel fee	228,449	252,152
Administration	151,848	88,915
Professional fees	43,637	50,075
Consultant fees	60,469	47,585
Bad debt expense (recovery)	(5,959)	19,602
Amortization	12,424	14,056
Loss prevention	23,250	6,075
	20,692,563	18,763,149
Excess (deficiency) of revenue over expenses for the year before the following	(5,570,465)	(4,010,561)
Unrealized loss on fair market value of investments	(8,527,923)	(3,122,950)
Premium credit (note 11)	735,746	1,662,383
Deficiency of revenue over expenses for the year	(13,362,642)	(5,471,128)
Unrestricted net assets – Beginning of year	50,570,595	35,448,475
Transitional adjustment for change in accounting policy (note 3)	-	20,593,248
Unrestricted net assets – End of year	37,207,953	50,570,595

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Cash Flows

For the year ended June 30, 2009

	2009 $	2008 $
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	(13,362,642)	(5,471,128)
Items not affecting cash		
Amortization	12,424	14,056
Gain on sale of investments	(1,045,995)	(107,588)
Unrealized loss on fair market value of investments	8,527,923	3,122,950
Provision for claims and related costs (note 6)	15,184,086	13,291,075
	9,315,796	10,849,365
Changes in non-cash working capital items	6,064,829	(511,589)
Claims and related costs paid – net of recoveries (note 6)	(16,714,801)	(11,356,941)
	(1,334,176)	(1,019,165)
Investing and financing activities		
Proceeds on disposal of investments	13,448,372	13,839,701
Purchase of investments	(11,907,444)	(12,742,391)
Purchase of capital assets	(20,207)	-
	1,520,721	1,097,310
Increase in cash and cash equivalents	186,545	78,145
Cash and cash equivalents – Beginning of year	12,413,690	12,335,545
Cash and cash equivalents – End of year	12,600,235	12,413,690
Cash and cash equivalents are comprised of		
Cash	7,928,967	4,567,927
Short-term investments	4,671,268	7,845,763
	12,600,235	12,413,690
Interest received	2,202,418	2,696,221

1 General

The Alberta Lawyers Insurance Association (the "Association") was incorporated on June 6, 1988 under Part 9 of the Companies Act of Alberta, chapter C-21, RSA 2000. On January 30, 2006, the Association was converted from a company limited by guarantee to a company limited by shares (see note 7). The Association administers a program under which members have mandatory coverage for errors and omissions of $1,000,000 per occurrence, with an annual aggregate limit of $2,000,000. The Association has contracted with the Canadian Lawyers Insurance Association ("CLIA") for group coverage subject to a group deductible of $300,000 for each claim. The Association is subject to premiums and other assessments that may arise from the agreement with CLIA. The Association meets the qualifications of a non-profit organization as defined by the Income Tax Act and as such is exempt from taxes.

2 Change in accounting policies and future accounting changes

Effective in 2009

a) Capital disclosures

Section 1535 of the Canadian Institute of Chartered Accountants ("CICA") Handbook establishes standards for disclosing information regarding an entity's capital and how it is managed. The section applies to financial statements related to fiscal years beginning on or after October 1, 2008. This new requirement is for disclosure only and will not impact the financial results of the Association. Refer to Note 12 "Capital Disclosures".

b) General standards of financial statement presentation

The Association adopted CICA issued Handbook Section 1400, "General Standards of Financial Statement Presentation" on January 1, 2008. This section requires the Association's management to assess and disclose the Association's ability to continue as a going concern should doubt exist in relation to this assumption. Management are of the opinion that the Association is able to continue as a going concern.

Effective in future years

a) Financial Instruments – Disclosure and Presentation

The Association has elected not to adopt CICA issued Handbook Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation and Disclosure" as permitted by the Accounting Standards Board.

b) Section 4400, Financial Statement Presentation by Not-For-Profit Organizations

Recent amendments to Section 4400, Financial Statement Presentation by Not-For-Profit Organizations will modify the requirements with respect to various elements of financial statement presentation. These amendments include preparation of the cash flow statement in accordance with handbook Section 1751.

The new standard applies to the financial statements relating to the fiscal years beginning on or after January 1, 2009, specifically July 1, 2009 for the Association. This standard will impact the Association's disclosures provided but will not affect the Association's results or financial position.

c) The future of accounting standards for not-for-profit organizations (NPO)

In 2008, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards ("IFRS") effective in 2011. NPOs have been excluded from the definition of publicly accountable entities and therefore, are not required to adopt IFRS. At this time, it remains uncertain as to the future of accounting standards which will be applicable to NPOs. The Association continues to monitor developments in this area and will consider the impact to the financial reporting and disclosures of the Association as announcements and decisions are made by the standard setters.

3 Summary of significant accounting policies

Revenue recognition

The levy is determined annually in June and amounts are due from members prior to July 1st. Levy revenue is recorded evenly throughout the year. Amounts received or receivable from members that pertain to the period subsequent to the year end are recorded as deferred revenue.

Investment income

Investment income comprises of interest, dividends, fund distributions, and gains (losses) realized on the disposal of investments. Interest and dividends earned on investments are included as revenue on an accrual basis. The change in fair value of investments is recorded in the statement of revenue, expenses and net assets as an unrealized gain (loss).

Provision for claims and related costs

The provision for claims and related costs is based upon the change from year to year in the reinsurance recoverables and reserve for claims and related cost. The reserve value is based on the greater of the Association's estimate of the cost of claims during the current year and the actuarial computed discounted cost of possible claims for the current year.

The Association's actuary is engaged to provide an annual valuation of the reserve for claims and related costs in accordance with the standards of practice adopted by the Canadian Institute of Actuaries. For the purpose of the actuarial valuation, the actuary is making use of certain information contained in the Association's financial records.

Recoveries

Recoveries for claims and related costs from insurers and other third parties are recorded when they can be reasonably estimated and collectability is reasonably assured. Otherwise, the recovery is recorded when received.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments comprised of treasury bills that mature within 90 days and are readily convertible to known amounts of cash and have an insignificant risk of change in value.

Investments

Investments, which are held in external pooled funds, are carried at market value with unrealized gains or losses recognized directly in the statement of revenue, expenses and net assets.

Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated on a straight-line basis at the following annual rates:

Furniture and equipment	20%
Computer	33 1/3%

Donated services

A portion of the Association's work is dependent on the services of volunteers, in particular the significant contribution of the Benchers, the Insurance Committee, and the Claims Committee. These services are not normally purchased by the Association and, due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.

Use of estimates

Some items in the financial statements are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. The most significant of these is an estimate for the reserve for claims and related costs. It is possible, based on existing knowledge, that changes in future conditions would require a material change in the recognized amounts of certain items.

Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, due from The Law Society of Alberta, investments, accounts payable and accrued liabilities, and reserve for claims and related costs.

The Association has classified each financial instrument into the following categories:

Category	**Financial Instrument**
Loans and receivables	Accounts receivable, accrued interest, due from the Law Society of Alberta, due from 1452597 Alberta Ltd.
Held-for-trading	Investments
Financial liabilities	Accounts payable and accrued liabilities, deferred revenue

Financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of the financial instruments is based on their classification. Financial loans and receivables and other financial liabilities are measured at cost or amortized cost. Held-for-trading investments are measured at fair market value with unrealized gains or losses recognized in the statement of operations.

A transitional adjustment at July 1, 2007 of $20,593,248 was required as a result of the adoption of this standard.

4 Investments

The Association's investments are managed on a pooled basis under contract with Mawer Investment Management Ltd. The Association's investments are carried at market value, subject to normal market fluctuations, and the statement of revenue and expense reports both realized and unrealized gains and losses on investments. The Association's investments consist of treasury bills, bonds and equity investments.

Investments at June 30 are as follows:

	2009 $	2008 $
Bonds		
Corporate	15,654,735	15,659,843
Municipal	2,086,760	2,021,526
Provincial government	11,650,180	12,530,380
Federal government	13,107,795	15,905,358
	42,499,470	46,117,107
Equities		
Quoted Canadian	15,601,700	17,988,524
Quoted United States	9,729,292	10,824,869
Quoted International	12,315,645	14,238,463
	37,646,637	43,051,856
	80,146,107	89,168,963

5 Capital assets

	2009			2008
	Cost $	Accumulated amortization $	Net $	Net $
Furniture and equipment	23,890	10,301	13,589	3,741
Computer	36,121	20,873	15,248	17,312
	60,011	31,174	28,837	21,053

6 Reserve for claims and related costs

The change in the reserve for claims and related costs is summarized as follows:

	2009 $	2008 $
Reserve for claims and related costs – Beginning of year	45,147,000	43,212,867
Claims paid and accrued	(16,244,064)	(13,248,234)
Related costs paid and accrued	(5,464,262)	(4,229,016)
Recoveries	7,404,240	6,120,308
	30,842,914	31,855,925
Increase due to claims experience	15,184,086	13,291,075
Reserve for claims and related costs – End of year	46,027,000	45,147,000

A portion of the reserve for claims and related costs is expected to be paid within the next fiscal year. This amount cannot be reasonably determined and therefore has not been included in current liabilities.

The discount rate applied by the actuary at June 30, 2009 is 4.0% (2008 – 4.75%). The undiscounted reserve balance at June 30, 2009 is $46,748,000 (2008 – $46,869,000).

7 Share capital

On January 30, 2006, the Association, by application to the Court of Queen's Bench, was converted from a company limited by guarantee to a company limited by shares. As a result of this conversion, share capital of $20 was issued representing four common shares; three shares issued to The Law Society of Alberta ("LSA") and one common share issued to the person from time to time holding the office of Executive Director of The Law Society of Alberta, as bare trustee for The Law Society of Alberta.

8 Related party transactions

As described in note 7, the Association is a wholly owned subsidiary of the LSA. During the year, the Association paid the LSA an amount of $987,768 (2008 – $922,926) for management fees. The balance due from the LSA at June 30 of $58,783 (2008 – $69,069) is non-interest bearing and due on demand.

1452597 Alberta Ltd. ("1452597") is a wholly owned subsidiary of ALIA and was incorporated on February 12, 2009 under the Business Corporations Act. Share capital of $1 consists of 100 common shares.

The sole purpose of 1452597 is to hold real property obtained under the terms of a claim settlement regarding ALIA insurance coverage for members of the Law Society of Alberta. The claim will be concluded by selling the property and transferring the net proceeds to ALIA at which time 1452597 will be wound up. This is expected to occur within the next fiscal year.

ALIA does not consolidate the results of 1452597 in its financial statements as permitted by CICA 4450 "Reporting Controlled and Related Entities by Not-for-Profit Organizations" and CICA 4460 "Disclosure of Related Party Transactions". A summary of 1452597's financial information at June 30, 2009 is as follows:

	$
Assets	568,071
Liabilities	571,311
Net assets	(3,240)
Revenue	-
Expenses	3,240
Excess of revenues over expenditures	(3,240)
Cash flows from operating activities	571,311
Cash flows from investing and financing activities	(571,311)
Increase in cash and cash equivalents	-

9 Financial instruments

Fair value

The fair market value of all financial instruments, except for investments and reserve for claims and related costs, approximate book value due to their short-term nature. The Association records its investments at fair market value based upon quoted market values. The fair value of reserve for claims and related costs is based upon annual actuarial assessments.

Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 0.2% (2008 – 2.4%).

Included in investments are fixed income bonds in the amount of $42,499,470 (2008 – $45,764,375). The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate range	Market value $
Within five years	3.55 – 6.15%	18,380,715
Greater than five years but less than ten years	4.01 – 4.65%	14,511,020
Greater than ten years	5.65 – 6.5%	9,607,735
		42,499,470

The Association manages the interest rate risk on fixed income bonds through the use of an investment manager. Agreed investment parameters are in place with the external investment manager to mitigate interest rate risk.

Price risk

The investments of the Association are subject to price risk because changing interest rates impact the market value of the fixed rate investments, general economic conditions affect the market value of equity investments and currency exchange rates impact the market value of the investments denominated in currencies other than the Canadian dollar. The risk is mitigated through the use of an investment manager for the long term portfolio investments and by investing other funds in short term fixed rate products with high credit ratings.

Credit risk

The Association does not believe it is exposed to significant credit risk on any of its financial assets. The Association manages credit risk by maintaining bank accounts with reputable financial institutions, only investing in securities that are liquid, highly rated, traded in active markets and its accounts receivables are small and from reputable, credit-worthy members/organizations.

Currency risk

The Association is exposed to currency risk to the extent that investments are not denominated in Canadian dollars. Refer to note 4. The Association has not entered into any foreign currency contracts to mitigate this risk.

Liquidity risk

The Association uses an investment manager for the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if the Association is required to sell at a time that the market for these investments is unfavourable.

10 Equity in Canadian Lawyers' Insurance Association

The Association is a subscriber to the Canadian Lawyers Insurance Association (CLIA) a reciprocal insurance exchange through which the law societies of ten provinces and territories (or their associated liability insurance entities) enter into agreements of mutual indemnification. Separate reserves are maintained by CLIA with respect to risks assumed and the Association has an interest in surpluses in these reserves. CLIA prepares annual Subscriber Accounts, as at the end of CLIA's fiscal year (December 31), which are approved by the CLIA Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscribers Accounts of CLIA as at December 31, 2008 show the Association's equity to be approximately $5.2 million (December 31, 2007 – $9.4 million). The Association's equity is not reflected in these financial statements.

11 Premium credit

During the year the Association was awarded a refund of previous years' mandatory premiums from CLIA in the amount of $735,746 (2008 – $1,662,383). This amount is an accumulation of the excess premiums paid over claims and related investment income for a number of policy years. This refund was declared at the September 26, 2008 Board meeting of CLIA and has been recorded as revenue in these financial statements.

12 Capital disclosures

The Association defines its capital as the amounts included in Net Assets.

The Association's objective when managing Net Assets is to safeguard the entity's ability to continue as a going concern and to provide the appropriate level of benefits and services to its stakeholders and others in the public interest.

The Association sets the amount of unrestricted Net Assets in proportion to risk and manages the fund structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets, and the requirements of its stakeholders and others in the public interest.