

The Alberta Lawyers Insurance Association

Financial Statements
June 30, 2005

August 26, 2005

Auditors' Report

To the Directors of The Alberta Lawyers Insurance Association

We have audited the balance sheet of **The Alberta Lawyers Insurance Association** as at June 30, 2005 and the statements of revenue, expenses and net assets and 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 financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 2005 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

Balance Sheet

As at June 30, 2005

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents	15,672,187	15,219,745
Accounts receivable	3,964,117	6,310,817
Accrued interest	395,835	389,949
Prepaid expenses	1,374,518	29,456
Due from (to) The Law Society of Alberta (note 5)	4,303	(63,875)
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	21,410,960	21,886,092
Investments – at cost (market value \$79,209,563; 2004 – \$68,304,155)	56,686,546	51,861,527
Reinsurance recoverables (note 2)	167,000	210,000
Capital assets (note 3)	30,967	36,619
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	78,295,473	73,994,238
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	1,076,110	1,642,994
Deferred revenue	14,682,108	13,510,382
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	15,758,218	15,153,376
Reserve for claims and related costs (note 4)	45,243,000	36,243,000
Net assets		
Unrestricted	17,294,255	22,597,862
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	78,295,473	73,994,238
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Approved by the Board of Directors

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_____ Director

The Alberta Lawyers Insurance Association

Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2005

	2005 \$	2004 \$
Revenue		
Annual levy	14,118,783	13,919,677
Investment income	3,852,792	2,702,329
	<u>17,971,575</u>	<u>16,622,006</u>
Expenses		
Provision for claims and related costs (note 4)	19,011,025	9,505,733
Premium paid to Canadian Lawyers Insurance Association	2,107,810	1,949,917
Salaries and employee benefits	1,080,344	942,825
Management fee (note 5)	723,250	666,544
Investment counsel fee	104,652	86,572
Loss prevention	103,700	80,417
Administration	81,738	110,464
Consultant fees	22,330	30,542
Amortization	16,634	12,332
Professional fees	15,600	15,064
Bad debt expense	8,099	27,632
	<u>23,275,182</u>	<u>13,428,042</u>
(Deficiency) excess of revenue over expenses for the year before the following	(5,303,607)	3,193,964
Premium credit (note 6)	-	2,271,143
(Deficiency) excess of revenue over expenses for the year	(5,303,607)	5,465,107
Net assets – Beginning of year	<u>22,597,862</u>	<u>17,132,755</u>
Net assets – End of year	<u>17,294,255</u>	<u>22,597,862</u>

The Alberta Lawyers Insurance Association

Statement of Cash Flows

For the year ended June 30, 2005

	2005 \$	2004 \$
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(5,303,607)	5,465,107
Items not affecting cash		
Amortization	16,634	12,332
Gain on sale of investments	(1,123,790)	(155,780)
Provision for claims and related costs (note 4)	19,011,025	9,505,733
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Changes in non-cash working capital items	12,600,262	14,827,392
Claims and related costs paid – net of recoveries (note 4)	1,532,416	11,471,968
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	(9,968,025)	(7,410,734)
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	4,164,653	18,888,626
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Investing and financing activities		
Proceeds on disposal of investments	22,519,308	8,364,935
Purchase of investments	(26,220,537)	(15,240,531)
Purchase of capital assets	(10,982)	(32,040)
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	(3,712,211)	(6,907,636)
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Increase in cash and cash equivalents	452,442	11,980,990
Cash and cash equivalents – Beginning of year	15,219,745	3,238,755
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Cash and cash equivalents – End of year	15,672,187	15,219,745
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Cash and cash equivalents are comprised of		
Cash	9,805,616	9,868,966
Short-term investments	5,866,571	5,350,779
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	15,672,187	15,219,745
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The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2005

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. 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 Summary of significant accounting policies

Revenue recognition

The levy is determined annually in July. Revenue is recorded evenly throughout the year. Amounts received that pertain to the period subsequent to the year-end are recorded as deferred revenue.

Recoveries

Recoveries from insurers and other third parties are recorded when they can be reasonably estimated and collectibility is reasonably assured. Otherwise, the recovery is recorded when received.

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.

Reinsurance recoverables

In the normal course of business, the Association seeks to limit exposure to losses on large risks by purchasing reinsurance from reinsurers. The amounts reported in the balance sheet include estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid or where the file has been closed.

During the year, the provision for claims and related costs have been disclosed on a gross basis with an offsetting asset reflecting the reinsurance recoverables. Prior year comparatives have been reclassified to conform with this presentation.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2005

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments comprised of treasury bills that are highly liquid and are readily convertible to known amounts of cash and are insignificant risk of change in value.

Investments

Long-term investments are recorded at cost and are written down to market value only if there is a permanent impairment in value. Cost is determined on a weighted average basis using the purchase date.

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. It is possible, based on existing knowledge, that changes in the future conditions would require a material change in the recognized amounts of certain items.

Comparative figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2005

3 Capital assets

	2005		2004	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	18,734	9,436	9,298	5,145
Computer	49,875	28,206	21,669	31,474
	68,609	37,642	30,967	36,619

4 Reserve for claims and related costs

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

	2005 \$	2004 \$
Balance – Beginning of year	36,243,000	33,938,000
(Decrease) increase in reinsurance recoverables	(43,000)	210,000
Claims paid and accrued	(8,667,683)	(5,689,829)
Related expenses paid and accrued	(3,548,112)	(3,395,000)
Recoveries	2,247,770	1,674,096
	26,231,975	26,737,267
Provision for claims and related costs	19,011,025	9,505,733
Balance – End of year	45,243,000	36,243,000

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.

5 Related party transactions

The Association is related to The Law Society of Alberta (“LSA”) as both organizations are controlled by the elected Benchers. The Association has paid LSA an amount of \$723,250 (2004 – \$666,544) for management fees. The balance due from (to) the Law Society at June 30 of \$4,303 (2004 – (\$63,875)) is non-interest bearing and due on demand.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2005

6 Premium credit

During the period the Association was not issued a refund of previous years' mandatory premiums from the Canadian Lawyers Insurance Association ("CLIA") (2004 – \$2,271,143). Refunds represent an accumulation of the excess of premiums paid over claims and related investment income.

7 Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, due from (to) the Law Society of Alberta, investments and accounts payable and accrued liabilities. The fair market value of all financial instruments, except for investments, approximate book value due to their short-term nature. The fair market value of investments has been disclosed on the balance sheet.

Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 2.39%.

Included in investments are fixed income bonds in the amount of \$31,172,565. The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate range	Amount \$
Within one year	3.00% – 12.50%	1,290,225
Greater than one year but less than five years	3.70% – 11.75%	10,897,615
Greater than five years	4.54% – 10.00%	18,984,725
		<u>31,172,565</u>

Credit risk

It is the opinion of management that the Association is not subject to significant credit risk, as the Association does not grant credit to members.

