

# **The Law Society of Alberta**

Financial Statements  
**October 31, 2007**

April 10, 2008

**Auditors' Report**

**To the Members of  
The Law Society of Alberta**

We have audited the balance sheet of **The Law Society of Alberta** as at October 31, 2007 and the statements of revenue, expenses and fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society'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 Society as at October 31, 2007 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 Law Society of Alberta

## Balance Sheet

As at October 31, 2007

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2007 \$	2006 \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	7,650,449	645,987	91,784	8,388,220	5,236,164
Accounts receivable	408,662	6,534	-	415,196	420,227
Accrued interest	53,183	47,738	10,681	111,602	90,798
Prepaid expenses	187,703	-	-	187,703	250,633
Interfund balances	(2,018,626)	2,018,392	234	-	-
	6,281,371	2,718,651	102,699	9,102,721	5,997,822
<b>Investments</b> (note 2)	20	6,807,364	1,159,028	7,966,412	6,404,692
<b>Reinsurance recoverables</b> (notes 3 and 6)	-	6,530,806	-	6,530,806	5,884,287
<b>Trust assets</b> (note 4)	513,976	-	-	513,976	394,259
<b>Capital assets</b> (note 5)	1,331,433	-	-	1,331,433	1,553,531
	8,126,800	16,056,821	1,261,727	25,445,348	20,234,591
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	1,150,956	140,881	-	1,291,837	1,269,414
Due to The Alberta Lawyers Insurance Association (note 10)	326,956	35,000	-	361,956	215,546
Deferred contribution	-	-	-	-	100,000
	1,477,912	175,881	-	1,653,793	1,584,960
<b>Reserve for claims and related costs</b> (note 6)	-	9,823,624	-	9,823,624	8,860,083
<b>Pension Plan payable</b> (note 8)	396,307	3,805	-	400,112	332,436
<b>Trust liabilities</b> (note 4)	513,976	-	-	513,976	394,259
<b>Deferred lease inducement</b>	554,285	-	-	554,285	678,752
	2,942,480	10,003,310	-	12,945,790	11,850,490
<b>Fund balances</b>					
Invested in capital assets	1,331,433	-	-	1,331,433	1,553,531
Externally restricted funds (note 7)					
Contingency reserve	-	6,053,511	-	6,053,511	2,512,632
Scholarship reserve	-	-	1,261,727	1,261,727	942,364
Unrestricted funds	3,852,887	-	-	3,852,887	3,375,574
	5,184,320	6,053,511	1,261,727	12,499,558	8,384,101
	8,126,800	16,056,821	1,261,727	25,445,348	20,234,591
<b>Commitments</b> (note 9)					

Approved by the Benchers

\_\_\_\_\_ Bencher

\_\_\_\_\_ Bencher

**The Law Society of Alberta**  
**Statement of Revenue, Expenses and Fund Balances**  
**For the year ended October 31, 2007**

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2007 \$	2006 \$
<b>Revenue</b>					
Practice fees	9,623,192	5,054,732	-	14,677,924	12,147,087
Investment income	368,560	527,913	72,933	969,406	1,355,947
Management fee (note 10)	906,570	(35,000)	-	871,570	798,610
Enrolment and application fees	405,960	-	-	405,960	348,493
Other	109,068	-	-	109,068	89,868
Fines and penalties	27,432	-	-	27,432	39,851
	<u>11,440,782</u>	<u>5,547,645</u>	<u>72,933</u>	<u>17,061,360</u>	<u>14,779,856</u>
<b>Expenses</b>					
Corporate costs					
Premises operating costs	1,095,921	-	-	1,095,921	898,942
General corporate costs	544,839	-	-	544,839	516,254
Amortization	568,679	-	-	568,679	672,945
Outside services	302,896	47,060	3,860	353,816	247,492
Computer operating costs	369,130	-	-	369,130	250,284
Indemnity bond fees	-	366,084	-	366,084	490,894
Departments, programs and committees					
Secretariat	1,181,151	-	-	1,181,151	1,048,493
Counsel	1,154,241	-	-	1,154,241	1,066,820
Member Audits	-	1,275,786	-	1,275,786	1,298,464
Complaints	941,690	-	-	941,690	848,051
Assurance and Custodianships	-	524,189	-	524,189	882,911
Membership	899,738	-	-	899,738	747,798
Administration and Human Resources	621,876	-	-	621,876	599,978
Information Technology	337,273	-	-	337,273	326,841
Accounting	357,574	-	-	357,574	374,643
Practice Advisor	457,930	-	-	457,930	357,295
Investigations	772,175	-	-	772,175	470,579
Communications	673,333	-	-	673,333	311,074
Privacy and Records Management	408,776	-	-	408,776	268,842
Member Regulation Administration	380,093	-	-	380,093	318,355
Practice Review	230,459	-	-	230,459	214,257
Unauthorized Practice of Law	84,106	-	-	84,106	84,777
Grants and contributions	1,367,077	-	-	1,367,077	1,248,055
Provision for claims and related costs (note 6)	-	518,451	-	518,451	493,377
Scholarships	-	-	40,000	40,000	15,000
	<u>12,748,957</u>	<u>2,731,570</u>	<u>43,860</u>	<u>15,524,387</u>	<u>14,052,421</u>
Less recovered costs	155,406	16,355	-	171,761	85,727
	<u>12,593,551</u>	<u>2,715,215</u>	<u>43,860</u>	<u>15,352,626</u>	<u>13,966,694</u>
<b>Excess (deficiency) of revenue over expenses for the year</b>	(1,152,769)	2,832,430	29,073	1,708,734	813,162
<b>Fund balance – beginning of year</b>	4,929,105	2,512,632	942,364	8,384,101	7,570,939
Transitional adjustment on adoption of new accounting policies (note 2)	-	2,116,433	290,290	2,406,723	-
Interfund transfers – Management fee	1,407,984	(1,407,984)	-	-	-
<b>Fund balance – end of year</b>	<u>5,184,320</u>	<u>6,053,511</u>	<u>1,261,727</u>	<u>12,499,558</u>	<u>8,384,101</u>

# The Law Society of Alberta

## Statement of Cash Flows

For the year ended October 31, 2007

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2007 \$	2006 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Excess (deficiency) of revenue over expenses for the year	(1,152,769)	2,832,430	29,073	1,708,734	813,162
Items not affecting cash					
Amortization	568,679	-	-	568,679	672,945
Gain on sale of investments	-	(211,637)	(23,503)	(235,140)	(784,304)
Provision for claims and related costs (note 6)	-	518,451	-	518,451	493,377
Increase (decrease) in Pension Plan payable	57,954	9,722	-	67,676	11,995
Decrease in lease inducement	(124,467)	-	-	(124,467)	(83,112)
	(650,603)	3,148,966	5,570	2,503,933	1,124,063
Change in non-cash working capital items	2,695,482	(2,578,166)	(1,326)	115,990	641,365
Claims and related costs paid – net of recoveries (note 6)	-	(201,429)	-	(201,429)	(852,581)
	2,044,879	369,371	4,244	2,418,494	912,847
<b>Investing and financing activities</b>					
Proceeds on disposal of investments	-	2,824,736	339,792	3,164,528	2,736,837
Purchase of investments	-	(1,751,393)	(332,992)	(2,084,385)	(2,424,374)
Purchase of capital assets	(346,581)	-	-	(346,581)	(519,302)
	(346,581)	1,073,343	6,800	733,562	(206,839)
<b>Increase (decrease) in cash and cash equivalents</b>	1,698,298	1,442,714	11,044	3,152,056	706,008
<b>Cash and cash equivalents – beginning of the year</b>	4,544,167	611,257	80,740	5,236,164	4,530,156
Interfund transfers	1,407,984	(1,407,984)	-	-	-
<b>Cash and cash equivalents – end of the year</b>	7,650,449	645,987	91,784	8,388,220	5,236,164
<b>Cash and cash equivalents are comprised of</b>					
Cash	961,559	327,901	20,952	1,310,412	1,702,228
Treasury bills	6,688,890	318,086	70,832	7,077,808	3,533,936
	7,650,449	645,987	91,784	8,388,220	5,236,164

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## 1 General

The Law Society of Alberta (the "Society") operates under the authority of the Legal Profession Act, Chapter L-8, Revised Statutes of Alberta 2000. The Society administers programs which help promote a high standard of legal services and professional conduct through governance and regulation of the independent legal profession.

## 2 Change in accounting policies

Effective November 1, 2006 the Society adopted the new recommendation of the Canadian Institute of Chartered Accountants (CICA) Handbook section 3855, Financial Instruments - Recognition and measurement, retroactively but without restatement of the prior years operating results.

The most significant impact of this change for the Society is that its investments, which are classified as held for trading, are recorded at market value with effect from the adoption of this new standard on November 1, 2006.

This resulted in an increase in the contingency reserve balance as at November 1, 2006 of \$2,116,433 and scholarship reserve balance of \$290,290, recognized as a transitional adjustment on that date. As a result of the adoption of this standard, investment income of the contingency reserve for the year ended October 31, 2007 decreased by \$450,453, and investment income of the scholarship reserve decreased by \$13,217.

The valuation for investments at October 31, 2006 is cost, since GAAP precludes restatement of prior years when adopting market valuation for investments.

## 3 Summary of significant accounting policies

### Fund accounting

The Society has the following funds:

#### General Fund

The General Fund is an unrestricted fund which provides for the administration and governance of the Society's day to day business.

# **The Law Society of Alberta**

Notes to Financial Statements

October 31, 2007

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## **Assurance Fund**

The Assurance Fund is a restricted fund which is maintained to reimburse, at the discretion of the Benchers, the principal amount of those losses caused by a member through the misappropriation or wrongful conversion of money or other property entrusted to or received by a member in the member's capacity as a barrister and solicitor and in the course of the member's practice as a barrister and solicitor in Alberta.

In addition, the Assurance Fund is maintained to provide for the cost of review of members' trust accounts, custodianships and the investigation of claims.

## **Viscount Bennett Trust Fund**

The Viscount Bennett Trust Fund is a restricted fund, the principal of which was gifted to the Society by the Right Honourable Viscount Bennett. The income generated by this fund is to be used for scholarships, medals and prizes for students-at-law, resident in Alberta.

## **Revenue recognition**

Members' fees set by the Benchers, which are billed in February, are recognized in the General Fund, as revenue in the fiscal period in which they are due. The Assurance Fund levy is also set by the Benchers and is billed at the same time as members' fees. The levy is recognized, in the Assurance Fund, as revenue in the fiscal period in which they are due. Members' fees and the levy are included in the line item titled practice fees. Investment income earned on resources is recognized in the fund to which the resources are maintained.

## **Recoveries**

Recoveries from insurers and other third parties are recorded as revenue 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 of the Assurance Fund is based upon the change from year to year in the reinsurance recoverables and reserve for claims and related costs. The reserve value is based on the greater of the Society's value and the Actuary's discounted value.

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

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## Reinsurance recoverables

In the normal course of business, the Society 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.

The provision for claims and related costs has been disclosed on a gross basis with an offsetting asset reflecting the reinsurance recoverables.

## Cash and cash equivalents

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

## 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%
Leasehold improvements	Over lease term (ranging from 4 to 10 years)

## Deferred lease inducement

The deferred lease inducement, representing the benefit of cash inducements, is amortized over the remaining term of the lease.

## Income taxes

The Society meets the qualifications of a non-profit organization as defined in the Income Tax Act and as such, is exempt for income taxes.

## Donated services

A portion of the Society's work is dependent on the voluntary service of many members, particularly the significant contribution of the Benchers. These services are not normally purchased by the Society and due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.



# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## 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. It is possible, based on existing knowledge, 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.

## 4 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed may be forwarded to the Society. In 2007, approximately \$119,000 (2006 – \$62,000) was received. The Society holds the funds in trust for a five year period and thereafter forwards any unclaimed funds to the Alberta Law Foundation. Amounts forwarded to the Alberta Law Foundation immediately after the 2007 fiscal year end were approximately \$92,000 (2006 – \$93,000).

## 5 Capital assets

	2007		2006	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	364,242	226,069	138,173	190,129
Computer	1,465,195	1,071,528	393,667	573,738
Leasehold improvements	1,127,013	327,420	799,593	789,664
	<u>2,956,450</u>	<u>1,625,017</u>	<u>1,331,433</u>	<u>1,553,531</u>

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## 6 Reserve for claims and related costs

The change in reinsurance recoverables is summarized as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Reinsurance recoverables – beginning of year	5,884,287	2,933,000
Increase due to claims experience	646,519	2,951,287
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Reinsurance recoverables – end of year	<u>6,530,806</u>	<u>5,884,287</u>

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

	<b>2007</b>	<b>2006</b>
	\$	\$
Reserve for claims and related costs – beginning of year	8,860,083	6,268,000
Claims paid	(194,983)	(892,092)
Related costs paid and accrued	(11,096)	(10,475)
Recoveries from members and third parties	4,650	49,986
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Increase due to claims experience	8,658,654	5,415,419
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Reserve for claims and related costs – end of year	<u>9,823,624</u>	<u>8,860,083</u>

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 Law Society of Alberta

## Notes to Financial Statements

October 31, 2007

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In summary, the net exposure is summarized as follows:

	2007 \$	2006 \$
Reserve for claims and related costs – beginning of year	8,860,083	6,268,000
Reinsurance recoverable – beginning of year	(5,884,287)	(2,933,000)
Net exposure – beginning of year	2,975,796	3,335,000
Claims paid	(194,983)	(892,092)
Related costs paid and accrued	(11,096)	(10,475)
Recoveries from members and third parties	4,650	49,986
	2,774,367	2,482,419
Provision for claims and related costs	518,451	493,377
Net exposure – end of year	3,292,818	2,975,796
Reserve for claims and related costs – end of year	9,823,624	8,860,083
Reinsurance recoverable – end of year	(6,530,806)	(5,884,287)
Net exposure – end of year	3,292,818	2,975,796

The discount rate applied by the actuary at October 31, 2007 is 4.50% (2006 – 4.75%). The undiscounted reserve balance at October 31, 2007 is \$9.475 million.

Claims which took place prior to March 10, 1986 and reported by March 10, 1987 are insured by bond, subject to a \$250,000 annual aggregate deductible, to the extent of \$15,000,000 for each occurrence. Claims occurring after March 10, 1986 and before November 1, 1997 are not insured by bond coverage. Effective November 1, 1997, the Society purchased an indemnity bond of \$2,000,000 annual aggregate with a \$1,000,000 annual aggregate deductible. Effective November 1, 2001, the Society purchased an indemnity bond of \$10,000,000 annual aggregate with a \$1,000,000 annual aggregate deductible.

Effective November 1, 1993, amended in 1999 and in 2002, the Benchers approved the implementation of a “cap” on the aggregate amounts of claims to be paid in any one fiscal year. The cap will be limited to \$11,000,000.

## 7 Restricted funds

### Contingency reserve

The Contingency reserve is for future liabilities that may arise as a result of significant adverse claims experience. In the current year, \$3,540,879 was added to the reserve comprised of revenues of the Assurance Fund in excess of expenses and management fees of \$1,424,446 (2006 – \$355,981) and the transitional adjustment on the adoption of new accounting policies of \$2,116,433.

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## Scholarship reserve

The Scholarship reserve is for scholarships, medals and prizes for students-at-law, resident in Alberta. In the current year, \$319,363 was added to the reserve comprised of revenue of the fund in excess of expenses of \$29,073 (2006 – \$87,361) and the transitional adjustment on the adoption of the new accounting policies of \$290,290.

## 8 Pension plan

The Society provides a non-contributory defined benefit pension plan to eligible management employees based on earnings and years of service. On advice of its actuary as of October 31, 2007, the details of the pension plan are as follows:

	2007 \$	2006 \$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – Beginning of year	2,809,453	2,524,623
Society contributions during year	91,523	149,627
Actual return on plan assets	189,900	279,215
Less benefits paid during year	(751,919)	(144,012)
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<b>Fair value of plan assets – Ending of year</b>	<b>2,338,957</b>	<b>2,809,453</b>
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning of year	2,873,881	2,814,398
Current service cost	142,396	140,392
Interest on accrued benefit obligation	137,448	150,473
Actuarial loss (gain) during year	1,305	(87,370)
Less benefits paid during year to retirees	(751,919)	(144,012)
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<b>Accrued benefit obligations – Ending of year</b>	<b>2,403,111</b>	<b>2,873,881</b>
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<b>Plan deficit</b>	<b>(64,154)</b>	<b>(64,428)</b>

# The Law Society of Alberta

## Notes to Financial Statements

October 31, 2007

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	2007 \$	2006 \$
<b>Pension cost</b>		
Current service cost	142,396	140,392
Interest cost on accrued benefit obligation	137,448	150,473
Expected return on plan assets	(161,152)	(164,283)
Amortization of transitional obligation	15,873	15,873
	<hr/>	<hr/>
<b>Pension cost recognized during year</b>	134,565	142,455
	<hr/>	<hr/>
<b>Accrued benefit asset</b>		
Beginning balance – Accrued benefit asset (liability)	66,760	59,589
Plus contributions in the year	91,523	149,627
Less pension cost recognized during year	(134,565)	(142,455)
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<b>Ending balance – Accrued benefit asset</b>	23,718	66,761
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<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	(64,154)	(64,428)
Unamortized transitional obligation	52,379	68,253
Unamortized net actuarial loss	35,493	62,936
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<b>Accrued benefit asset</b>	23,718	66,761
	<hr/>	<hr/>

### Plan assets

The plan assets are invested in a variety of financial instruments from money market to primarily a mix of fixed income and equity securities.

Fixed income	33%
Foreign equities	35%
Canadian equity	29%
Cash and cash equivalents	3%
	<hr/>
	100%
	<hr/>

### Assumptions

The actuary used the following rates in its calculations:

	2007	2006
Discount rate – Beginning	5.35%	5.35%
Discount rate – Ending	5.50%	5.35%
Expected long rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%

# The Law Society of Alberta

## Notes to Financial Statements

October 31, 2007

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### Supplemental Retirement Plan and top-up payment

The Society provides to eligible management employees a non-funded Supplemental Retirement Plan (SRP). The SRP is based on earnings and years of service, and has been implemented to top-up the pension payments for those that are above the Canada Revenue Agency ("CRA") maximum.

	2007 \$	2006 \$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning	477,027	443,438
Current service cost	18,681	16,504
Interest on accrued benefit obligation	25,392	23,540
Actuarial loss during year	(23,569)	16,923
Less benefits paid during year for retirees	(23,521)	(23,378)
<b>Accrued benefit obligation – Ending</b>	<b>474,010</b>	<b>477,027</b>
<b>Pension cost</b>		
Current service cost	18,681	16,504
Interest cost on accrued benefit obligation	25,392	23,540
Amortization of net actuarial losses	3,938	2,357
<b>Pension cost recognized during year</b>	<b>48,011</b>	<b>42,401</b>
<b>Accrued benefit liability</b>		
Beginning balance – accrued benefit liability	(395,535)	(376,512)
Plus contributions in the year	23,521	23,378
Less pension cost recognized during year	(48,011)	(42,401)
<b>Ending balance – Accrued benefit liability</b>	<b>(420,025)</b>	<b>(395,535)</b>
<b>Reconciliation of accrued benefit liability</b>		
Funded status (plan deficit)	(474,009)	(477,027)
Unamortized net actuarial loss	53,984	81,492
<b>Accrued benefit liability</b>	<b>(420,025)</b>	<b>(395,535)</b>

### Top-up payment

In a prior year, the Society provided a one-time pension top-up to plan members as a result of a 1.1% shortfall due to CRA maximums, and was only provided until the SRP was implemented. This amount is held and accrues 4% interest annually until the member retires. The balance remaining pertaining to the top-up at October 31, 2007 was \$3,805 (2006 – \$3,659).

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2007

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## 9 Commitments

The Society is committed to lease office space and equipment for various periods up to the year 2014. Future minimum lease payments are as follows:

	\$
2008	1,275,687
2009	1,232,911
2010	1,314,418
2011	1,136,478
2012 and thereafter	3,306,401

## 10 Related party transactions

The Alberta Lawyers Insurance Association (“ALIA”) was incorporated on June 6, 1988 under Part 9 of the Companies Act of Alberta, chapter C-21, RSA 2000. On January 30, 2006, ALIA, 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 Society and one common share issued to the person from time to time holding the office of Executive Director of the Society, as bare trustee for the Society. ALIA is now a wholly owned subsidiary of the Society.

ALIA 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. ALIA has contracted with the Canadian Lawyers Insurance Association (“CLIA”) for group coverage subject to premiums and other assessments that may arise from the agreement with CLIA. ALIA meets the qualifications of a non-profit organization as defined by the Income Tax Act and such is exempt from taxes.

The Society does not consolidate, in its financial statements, the results of ALIA. A summary of ALIA’s financial information at the year ended June 30, 2007 is as follows:

	\$
Assets	89,845,018
Liabilities	54,396,523
Net assets	35,448,495
Revenue	23,658,580
Expenses	<u>14,149,119</u>
<b>Excess of revenue over expenses</b>	<u>9,509,461</u>
Cash flows from Operating Activities	333,157
Cash flows from Investing and Financing Activities	<u>(1,247,067)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(913,910)</u>

# The Law Society of Alberta

## Notes to Financial Statements

October 31, 2007

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During the year ended October 31, 2007, the Society received from ALIA an amount of \$871,570 (2006 – \$798,610) for management fees. As at October 31, 2007, an amount of \$361,956 (2006 – \$215,546) was due to ALIA and is non-interest bearing and due on demand. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

### 11 Financial instruments

The Society's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, investments, reinsurance recoverables, accounts payable, due to the Alberta Lawyers Insurance Association, reserve for claims and related costs and pension plan payable.

The fair market value of all instruments, excluding investments, reinsurance recoverables, reserve for claims and related costs and pension plan payable, approximate book value due to their short term nature. The Society records its long-term investment at market value. The fair value of reinsurance recoverables and reserve for claims and related costs has not been determined due to the difficulty in estimating their value. The fair value of pension plan payables approximates book value.

#### Interest rate risk

The Society is exposed to interest rate risk on its investments.

Treasury bills have a maturity date within a year of the balance sheet date and bear an interest rate of 4.15% – 4.20%. Included in investments are fixed income bonds in the amount of \$4,142,022. The maturity dates and interest rates are as follows:

<b>Maturity date from balance sheet date</b>	<b>Interest rate Range</b>	<b>Cost \$</b>	<b>Market value \$</b>
Greater than one year, but less than five years	4.4% – 9.0%	698,823	759,046
Greater than five years	4.0% – 5.89%	3,443,199	3,456,949
		<u>4,142,022</u>	<u>4,215,995</u>

#### Credit risk

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



