The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2012

April 11, 2013

Independent Auditor's Report

To the Members of
The Law Society of Alberta

We have audited the accompanying non-consolidated financial statements of The Law Society of Alberta, which comprise the non-consolidated balance sheet as at December 31, 2012 and the non-consolidated statements of revenue, expenses and fund balances and cash flows for the fourteen month period ended December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of Alberta as at December 31, 2012 and the results of its operations and its cash flows for the fourteen month period ended December 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information
Without modifying our opinion, we draw attention to note 2 to the non-consolidated financial statements, which describes that The Law Society of Alberta adopted Canadian accounting standards for not-for-profit organizations on November 1, 2011 with a transition date of November 1, 2010. These standards were applied retrospectively by management to the comparative information in these non-consolidated financial statements, including the non-consolidated balance sheet as at October 31, 2011 and November 1, 2010, and the non-consolidated statements of revenue, expenses and fund balances and cash flows for the year ended October 31, 2011 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

PricewaterhouseCoopers LLP

Chartered Accountants

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2012

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2012 $	October 31, 2011 $ (unaudited - note 2)	November 1, 2010 $ (unaudited - note 2)
Assets						
Current assets						
Cash and cash equivalents	1,952,530	1,885,878	193,307	4,031,715	4,146,396	3,341,473
Accounts receivable	350,983	354,548	3	705,534	358,203	328,570
Accrued interest	5,983	39,559	4,177	49,719	85,818	80,988
Prepaid expenses	295,368	249,072	-	544,440	211,547	240,146
Interfund balances	(16,047)	15,808	239	-	-	-
	2,588,817	2,544,865	197,726	5,331,408	4,801,964	3,991,177
Investments (note 4)	979,473	10,487,924	1,163,183	12,630,580	13,690,417	14,390,942
Reinsurance recoverable (note 7)	-	7,187,041	-	7,187,041	4,987,116	5,214,130
Trust assets (note 5)	1,327,900	-	-	1,327,900	1,212,184	840,672
Capital assets (note 6)	2,061,416	-	-	2,061,416	1,985,425	1,333,354
	6,957,606	20,219,830	1,360,909	28,538,345	26,677,106	25,770,275
Liabilities						
Current liabilities						
Deferred revenue (note 3)	3,787,435	1,048,254	-	4,835,689	7,558,673	6,719,105
Accounts payable and accrued liabilities	640,657	37,462	-	678,119	936,734	778,073
Due to The Alberta Lawyers Insurance Association (note 12)	17,429	-	-	17,429	3,666	4,228
Deferred lease inducement	77,340	-	-	77,340	77,340	77,342
Capital lease obligation (note 8)	50,289	-	-	50,289	50,289	-
	4,573,150	1,085,716	-	5,658,866	8,626,702	7,578,748
Long-term liabilities						
Reserve for claims and related costs (note 7)	-	13,976,022	-	13,976,022	10,389,055	10,906,862
Trust liabilities (note 5)	1,327,900	-	-	1,327,900	1,212,184	840,672
Pension plan payable (note 10)	851,469	-	-	851,469	739,069	654,231
Deferred lease inducement	77,340	-	-	77,340	167,574	244,914
Capital lease obligation (note 8)	33,527	-	-	33,527	86,261	-
	2,290,236	13,976,022	-	16,266,258	12,594,143	12,646,679
	6,863,386	15,061,738	-	21,925,124	21,220,845	20,225,427
Fund balances						
Invested in capital assets	2,061,416			2,061,416	1,985,425	1,333,354
Externally restricted funds (note 9)						
Contingency reserve		5,158,092		5,158,092	5,574,230	5,521,067
Scholarship reserve			1,360,909	1,360,909	1,252,968	1,238,299
Unrestricted funds	(1,967,196)	-	-	(1,967,196)	(3,356,362)	(2,547,872)
	94,220	5,158,092	1,360,909	6,613,221	5,456,261	5,544,848
	6,957,606	20,219,830	1,360,909	28,538,345	26,677,106	25,770,275

Commitments (note 11)

Approved by the Benchers

_______________________ Bencher _______________________ Bencher

The accompanying notes are an integral part of the financial statements.

The Law Society of Alberta
Non-consolidated Statement of Revenue, Expenses and Fund Balances
For the fourteen months ended December 31, 2012

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2012 $	For the year ended October 31, 2011 $ (unaudited – note 2)
Revenue					
Practice fees	18,495,023	5,837,687	-	24,332,710	19,715,206
Investment income	178,624	1,281,650	120,508	1,580,782	1,029,064
Management fee (note 12)	1,582,000	-	-	1,582,000	1,300,080
Enrolment and application fees	455,638	-	-	455,638	397,747
Other	70,272	-	-	70,272	81,866
Fines and penalties	47,500	-	-	47,500	36,500
	20,829,057	7,119,337	120,508	28,068,902	22,560,463
Expenses					
Corporate costs					
Premises operating costs	1,599,009	-	-	1,599,009	1,293,500
General corporate costs	779,683	68,193	4,794	852,670	557,419
Amortization	880,983	-	-	880,983	817,608
Indemnity bond fees	-	295,010	-	295,010	259,985
Departmental costs					
Secretariat	1,870,373	-	-	1,870,373	1,399,794
Counsel	1,887,975	-	-	1,887,975	1,506,854
Trust safety	-	2,413,204	-	2,413,204	2,329,709
Complaints	1,870,981	-	-	1,870,981	1,523,480
Custodianships	-	498,313	-	498,313	449,262
Membership	1,226,091	-	-	1,226,091	1,077,035
Administration	1,444,978	-	-	1,444,978	1,396,963
Human resources	786,343	-	-	786,343	489,565
Business technology	2,546,777	-	-	2,546,777	2,234,683
Accounting	530,014	-	-	530,014	521,909
Professionalism, competence, & access	2,243,178	-	-	2,243,178	2,752,411
Investigations	786,385	-	-	786,385	776,612
Communications	757,402	-	-	757,402	597,842
Privacy and records management	426,048	-	-	426,048	357,480
Member regulation administration	633,543	-	-	633,543	737,693
Practice review	476,847	-	-	476,847	301,745
Policy and research	1,092,887	-	-	1,092,887	849,112
Provision for claims & related costs (note 7)	-	1,924,237	-	1,924,237	314,508
Scholarships	-	-	20,000	20,000	40,000
	21,839,497	5,198,957	24,794	27,063,248	22,585,193
Excess (deficiency) of revenue over expenses for the period before other items	(1,010,440)	1,920,380	95,714	1,005,654	(24,730)
Other items:					
Unrealized gain (loss) on investments	(53,643)	66,838	12,227	25,422	(240,503)
Recovered costs	121,240	4,644	-	125,884	176,646
Interfund management fees	2,408,000	(2,408,000)	-	-	-
Excess (deficiency) of revenue over expenses for the period	1,465,157	(416,138)	107,941	1,156,960	(88,587)
Fund balance (deficiency) – beginning of period	(1,370,937)	5,574,230	1,252,968	5,456,261	5,544,848
Fund balance – end of period	94,220	5,158,092	1,360,909	6,613,221	5,456,261

The accompanying notes are an integral part of the financial statements.

The Law Society of Alberta

Non-consolidated Statement of Cash Flows

For the fourteen months ended December 31, 2012

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2012 $	For the year ended October 31, 2011 $ (unaudited- note 2)
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	1,465,157	(416,138)	107,941	1,156,960	(88,587)
Items not affecting cash					
Amortization	880,983	-	-	880,983	817,608
Gain on sale of investments	(73,612)	(781,499)	(70,689)	(925,800)	(481,422)
Unrealized (gain) loss on investments	53,643	(66,838)	(12,227)	(25,422)	240,503
Provision for claims & related costs (note 7)	-	1,924,237	-	1,924,237	314,508
Decrease in lease inducement	(90,234)	-	-	(90,234)	(77,340)
	2,235,937	659,762	25,025	2,920,724	725,270
Change in non-cash working capital items	(2,367,858)	(1,280,269)	(16,564)	(3,664,691)	991,801
Claims and related costs paid – net of recoveries (note 7)	-	(537,195)	-	(537,195)	(605,301)
Increase in pension plan payable	112,400	-	-	112,400	84,838
	(19,521)	(1,157,702)	8,461	(1,168,762)	1,196,608
Investing activities					
Proceeds on disposal of investments	975,314	9,738,150	606,559	11,320,023	6,961,226
Purchase of investments	(721,375)	(8,024,820)	(562,773)	(9,308,968)	(6,019,782)
Purchase of capital assets	(956,974)	-	-	(956,974)	(1,333,129)
	(703,035)	1,713,330	43,786	1,054,081	(391,685)
Increase (decrease) in cash and cash equivalents	(722,556)	555,628	52,247	(114,681)	804,923
Cash and cash equivalents – beginning of the period	2,675,086	1,330,250	141,060	4,146,396	3,341,473
Cash and cash equivalents – end of the period	1,952,530	1,885,878	193,307	4,031,715	4,146,396
Cash and cash equivalents comprised of:					
Cash	313,621	149,038	7,772	470,431	278,492
Treasury bills	1,638,909	1,736,840	185,535	3,561,284	3,867,904
	1,952,530	1,885,878	193,307	4,031,715	4,146,396
Interest received	112,244	328,364	33,155	473,763	419,950

The accompanying notes are an integral part of the financial statements.

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 an independent legal profession. The financial statements of the Society are prepared on a non-consolidated basis (refer to Note 10 “Related Party Transactions”).

On June 9, 2012, the Benchers of the Society approved a change in the fiscal year-end of the Society to December 31 to be effective as at December 31, 2012.

2 Transition to accounting standards for not-for-profit organizations

Effective November 1, 2011, the Society elected to adopt Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board. As a part of the transition to ASNPO, the Society evaluated its existing accounting policies and elected to change the revenue recognition policy for Members’ fees and the Assurance Fund levy to the deferral method of accounting. The accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect.

At the date of transition, the Society has elected to designate all investments to be measured at fair value. As this is the same method used prior to the change in accounting framework, there are no adjustments to the non-consolidated balance sheet or the non-consolidated statements of revenue, expenses and fund balances and cash flows.

The Society has not utilized any other transitional exemptions on the adoption of ASNPO.

The comparative figures are marked as unaudited as no audit procedures were performed over the comparative figures under Canadian accounting standards for not-for-profit organizations. An unmodified audit report was issued for the financial statements for the year ended October 31, 2011 dated February 2, 2012, under the Canadian Generally Accepted Accounting Principles in force at that time, Canadian Institute of Chartered Accountants' Handbook Part V, Pre-changeover accounting standards.

Other than the changes as described above, there were no other adjustments to the non-consolidated balance sheet or the non-consolidated statements of revenue, expenses and fund balances and cash flows.

Reconciliation of fund balance on the transition to ASNPO

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Fund balance as at October 31, 2010, as previously reported	12,263,953
Change in the revenue recognition policy to the deferral method	(6,719,105)
Opening fund balance as at November 1, 2010 under ASNPO	5,544,848

Reconciliation of excess of revenue over expenses on the transition to ASNPO

	$
Excess of revenue over expenses for the year ended October 31, 2011, as previously reported	750,981
Change in the revenue recognition policy to the deferral method	(839,568)
Excess of revenue over expenses for the year ended October 31, 2011 under ASNPO	(88,587)

The change in the accounting policy for revenue recognition had no impact on the Society's cash flow or total assets.

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.

Assurance Fund

The Assurance Fund is a restricted fund which is maintained to reimburse, at the discretion of the Benchers, the principal amount of 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 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 for students-at-law, resident in Alberta.

Financial Instruments

The Society records cash and cash equivalents, accounts receivable, accrued interest, trust assets, reinsurance recoverable, accounts payable and accrued liabilities, due to The Alberta Lawyers Insurance Association, pension plan payable and capital lease obligations at amortized cost. Amortization, if any, is recorded on a straight-line basis.

The Society's investments consist of equity securities, corporate bonds, municipal government bonds, provincial government bonds and federal government bonds. The investment in equity securities which are traded on an active market are recorded at fair value. The Society has elected to record the investments in corporate bonds, municipal bonds, municipal government bonds, provincial government bonds and federal government bonds at fair value. Changes in fair value of the investments are recorded on the statement of revenue, expenses and fund balances.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

Revenue recognition

Members' fees of the General Fund and the Assurance Fund levy are set by the Benchers, are billed in February, and are due by March 15. Revenue is recorded in the respective fund evenly throughout the year to which it applies. Amounts received or receivable that pertain to the period subsequent to the year-end are deferred and recognized as revenue in the next fiscal year. Fees and levies are included in the line item titled practice fees. Investment income earned on investments is recognized in the fund in which the investments are maintained.

Recoveries

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

Reserve and 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 recoverable and reserve for claims and related costs. The reserve value is based on the actuarially determined discounted cost of possible claims and related costs as at the end of the fiscal year.

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 made use of certain information contained in the Society's financial records.

Reinsurance recoverable

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 recoverable.

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.

Investment income

Investment income comprises of interest, dividends, fund distributions, and gains and 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 fund balances as an unrealized gain (loss).

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%
Furniture and equipment under capital lease	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 applicable lease.

Post-employment benefits

The Society maintains pension plans which provide defined benefit and defined contribution pension benefits. Pension costs and obligations for the defined benefit pension plans are determined using the projected benefit method and are charged to the statement of revenue, expense and fund balances based upon the actuarial valuation calculation.

Pension plan assets of the registered pension plan (RPP) are measured at fair value and the expected return on pension plan assets is determined using market related values. The supplemental retirement plan (SRP) does not hold any assets. The transitional obligation for the RPP is amortized on a straight-line basis over the average remaining service period of the employees in effect at November 1, 2004. The transitional obligation for the SRP has been reflected immediately. There is no amortization of adjustments arising from amendments for either the RPP or SRP as these items are nil. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees.

Income taxes

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

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.

4 Investments

The Society's investments are managed under contract with an investment manager. The Society's investments are carried at fair market value, subject to normal market fluctuations, and the statement of revenue, expenses, and fund balances reports both realized and unrealized gains and losses on investments. The Society's investments consist of bonds and equity investments.

Investments at December 31 are as follows:

	2012 $	2011 $ (unaudited – note 2)
Bonds denominated in Canadian dollars:		
Corporate	3,076,590	2,888,361
Municipal government	-	378,621
Provincial government	2,074,382	2,064,991
Federal government	2,302,760	2,692,353
	7,453,732	8,024,326
Equities denominated in Canadian dollars:	5,176,848	5,666,091
	12,630,580	13,690,417

5 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed may be forwarded to the Society. In 2012, approximately $195,000 (2011 – $430,000) was received. The Society holds the funds in trust for a five year period, refunds amounts to claimants as appropriate, and thereafter forwards any unclaimed funds to the Alberta Law Foundation. Amounts forwarded to the Alberta Law Foundation for the 2012 fiscal period were approximately $81,000 (2011 – $58,000).

6 Capital assets

	2012			2011 (unaudited – note 2)
	Cost $	**Accumulated amortization $**	**Net $**	**Net $**
Furniture and equipment	553,934	268,348	285,586	258,250
Computer	2,049,754	1,235,865	813,889	592,144
Leasehold improvements	1,936,960	975,019	961,941	1,135,031
	4,540,648	2,479,232	2,061,416	1,985,425

Included in furniture and equipment are assets acquired through capital lease with a net book value of $83,816 (2011 - $142,487).

7 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2012 $	2011 $ (unaudited – note 2)
Reinsurance recoverable – beginning of period	4,987,116	5,214,130
(Decrease) increase due to claims experience	2,199,925	(227,014)
Reinsurance recoverable – end of period	7,187,041	4,987,116

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

	2012 $	2011 $ (unaudited – note 2)
Reserve for claims and related costs – beginning of period	10,389,055	10,906,862
Claims paid	(461,405)	(584,933)
Related costs paid and accrued	(234,460)	(25,710)
Recoveries from members and third parties	158,670	5,342
	(537,195)	(605,301)
Increase due to claims experience	4,124,162	87,494
Reserve for claims and related costs – end of period	13,976,022	10,389,055

Case reserves (indemnity and external expenses)	4,786,259	4,912,227
IBNR reserve (indemnity and external expenses)	7,309,490	4,106,437
Provision for internal claim administration	306,845	316,840
Provision for adverse deviation	1,573,428	1,053,551
Reserve for claims and related costs	13,976,022	10,389,055

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.

In summary, the net exposure is summarized as follows:

	2012 $	**2011 $ (unaudited – note 2)**
Reserve for claims and related costs – beginning of period	10,389,055	10,906,862
Reinsurance recoverable – beginning of period	(4,987,116)	(5,214,130)
Net exposure – beginning of period	5,401,939	5,692,732
Claims paid	(461,405)	(584,933)
Related costs paid and accrued	(234,460)	(25,710)
Recoveries from members and third parties	158,670	5,342
	4,864,744	5,087,431
Provision for claims and related costs	1,924,237	314,508
Net exposure – end of period	6,788,981	5,401,939
Reserve for claims and related costs – end of period	13,976,022	10,389,055
Reinsurance recoverable – end of period	(7,187,041)	(4,987,116)
Net exposure – end of period	6,788,981	5,401,939

The discount rate applied by the actuary at December 31, 2012 is 3.15% (2011 – 3.5%). The undiscounted reserve balance at December 31, 2012 is $13.4 million (2011 – $9.2 million).

Claims which took place prior to March 10, 1986 and reported by March 10, 1987 are insured by a $15,000,000 bond, with a $250,000 deductible. 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 with a $1,000,000 deductible. Effective November 1, 2001, the Society purchased an indemnity bond of $10,000,000 with a $1,000,000 deductible. Effective November 1, 2007, the Society purchased an indemnity bond of $10,000,000 with a $1,500,000 deductible.

8 Capital lease obligation

The Society's capital lease obligation is as follows:

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2013	50,289
2014	33,527
Total minimum lease payments	83,816

Interest expense incurred on the lease for the period amounted to $10,239 (2011 - $11,786) at an annual interest rate of 8%.

9 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 period, expenses and management exceeded revenue of the Assurance Fund by ($416,138) and this amount was, therefore, deducted to the reserve (2011 – revenue exceeded expenses and management fees by $83,899).

Scholarship reserve

In the current period, revenue exceeded expenses by $107,941 and this amount was, therefore, added to the reserve (2011 – $14,669).

10 Pension plan

a) Pension plan payable

	2012 $	**2011 $ (unaudited – note 2)**
Pension accrued liability	197,741	150,934
Supplemental plan liability	653,728	588,135
	851,469	739,069

b) The Society provides a non-contributory defined benefit pension plan to eligible management employees based on earnings and years of service. On advice of the actuary as of December 31, 2012, the details of the pension plan are as follows:

	2012 $	**2011 $ (unaudited – note 2)**
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	2,521,142	2,376,340
Society contributions during period	259,367	194,029
Actual return on plan assets	302,152	96,985
Less benefits paid during period to retirees	(480,293)	(146,212)
Fair value of plan assets – end of period	2,602,368	2,521,142
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	3,476,135	3,347,744
Current service cost	153,504	123,652
Interest on accrued benefit obligation	181,649	150,141
Actuarial loss gain during period	331,266	810
Less benefits paid during period to retirees	(480,293)	(146,212)
Accrued benefit obligations – end of period	3,662,261	3,476,135
Plan deficit	(1,059,893)	(954,993)
Pension cost		
Current service cost	153,504	123,652
Interest cost on accrued benefit obligation	181,649	150,141
Expected return on plan assets	(168,748)	(156,016)
Amortization of transitional obligation	-	4,760
Amortization of net actuarial losses	139,769	79,969
Pension cost recognized during period	306,174	202,506
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(150,934)	(142,457)
Plus contributions in the period	259,367	194,029
Less pension cost recognized during period	(306,174)	(202,506)
Ending balance – Accrued benefit liability	(197,741)	(150,934)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(1,059,893)	(954,993)
Unamortized net actuarial loss	862,152	804,059
Accrued benefit liability	(197,741)	(150,934)

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	31%
Foreign equities	42%
Canadian equity	22%
Cash and cash equivalents	5%
	100%

Assumptions

The actuaries used the following rates in their calculations:

	2012	**2011**
Discount rate – beginning of period	4.70%	4.50%
Discount rate – end of period	3.85%	4.70%
Expected long-term rate of return on plan assets	5.75%	6.50%
Rate of compensation increase	3.50%	3.50%

c) Supplemental Retirement Plan

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 maximum.

	2012 $	**2011 $ (unaudited – note 2)**
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	883,470	794,353
Current service cost	45,943	31,866
Interest on accrued benefit obligation	47,210	35,909
Actuarial loss during period	254,185	45,948
Less benefits paid during period for retirees	(90,943)	(24,606)
Accrued benefit obligation – end of period	1,139,865	883,470
Pension cost		
Current service cost	45,943	31,866
Interest cost on accrued benefit obligation	47,210	35,909
Amortization of net actuarial losses	63,382	33,192
Pension cost recognized during period	156,535	100,967

Accrued benefit liability		
Beginning balance – accrued benefit liability	(588,136)	(511,774)
Plus contributions in the period	90,943	24,606
Less pension cost recognized during period	(156,535)	(100,967)
Ending balance – Accrued benefit liability	(653,728)	(588,135)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(1,139,865)	(883,470)
Unamortized net actuarial loss	486,137	295,335
Accrued benefit liability	(653,728)	(588,135)

11 Commitments

The Society is committed to leased office space and equipment, excluding equipment under capital leases, for various periods up to the year 2021. In addition, the Society has annual funding commitments to related not-for-profit organizations. Future minimum lease payments and funding commitments are as follows:

	$
2013	3,822,849
2014	2,148,325
2015	522,436
2016	523,991
2017 and thereafter	2,265,009

12 Related party transactions

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. As a result of this conversion, share capital of $20 was issued representing four common shares; three shares issued to the Society and one share issued to the person from time to time holding the office of Executive Director of the Society, as bare trustee for the Society. The Association is a wholly-owned subsidiary of the Society.

The Association administers a program under which active members of the Society in private practice have mandatory coverage for errors and omissions of $1,000,000 per occurrence, with a limit of $2,000,000. The Association is a member of Canadian Lawyers Insurance Association (CLIA), a reciprocal insurance exchange which provides for group coverage 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.

The Society does not consolidate, in its financial statements, the results of the Association. A summary of the Association's financial information for the six months ended December 31, 2012 is as follows:

	2012 $	Year ended June 30, 2012 $ (unaudited – note 2)
Assets	110,190,881	115,421,349
Liabilities	(76,177,923)	(82,948,512)
Net assets	34,012,958	32,472,837
Revenue	15,513,551	24,376,120
Expenses	(14,034,610)	(28,087,126)
Excess (deficiency) of revenue over expenses before the following:	1,478,941	(3,711,006)
Unrealized gain on fair market value of investments	61,180	319,019
Excess (deficiency) of revenue over expenses	1,540,121	(3,391,987)
Cash flows from Operating Activities	(3,734,659)	1,472,859
Cash flows from Investing Activities	(2,141,353)	1,883,814
(Decrease) increase in cash and cash equivalents	(5,876,012)	3,356,673

During the fourteen months ended December 31, 2012, the Society received from the Association an amount of $1,582,000 (2011 – $1,300,080) for management fees. As at December 31, 2012, an amount of $17,429 (2011 – $3,666) was due to the Association 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.

The elected Benchers of the Law Society include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the fourteen months ended December 31, 2012, expenses of $192,434 (2011 - $17,265) were incurred with these law firms.

13 Financial instruments

Interest rate risk

The Society is exposed to interest rate risk on its investments. The Society manages the interest rate risk on fixed income bonds through the use of an investment manager who is guided by an agreed Statement of Investment Policies and Goals to mitigate interest rate risk.

Treasury bills have a maturity date within a year of the balance sheet date and bear an interest rate of 0.91% to 0.92%. Included in investments are fixed income bonds in the amount of $7,453,732. The maturity dates and interest rates are as follows:

		2012		2011
Maturity date from balance sheet date	**Interest rate Range**	**Market value $**	**Interest rate Range**	**Market value $ (unaudited-note 2)**
Within five years	1.34 – 4.85%	3,053,481	2.20 – 6.15%	2,153,799
Greater than five years but less than ten years	2.65 – 5.68%	2,619,848	3.25 – 5.68%	5,249,521
Greater than ten years	1.50 – 4.70%	1,780,403	4.70%	621,006
		7,453,732		8,024,326

Price risk

The investments of the Society 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 Society does not believe it is exposed to significant credit risk on any of its financial assets. The Society 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.

Liquidity risk

Investments are subject to liquidity risk if the Society is required to sell at a time that the market for these investments is unfavourable.