The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2013

April 23, 2014

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, 2013 and the non-consolidated statement of revenue, expenses and fund balances and statement of cash flows for the year ended December 31, 2013, and the related notes, which comprises 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, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2013

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2013 $	2012 $
Assets					
Current assets					
Cash and cash equivalents	3,061,358	1,288,562	165,670	4,515,590	4,031,715
Accounts receivable	450,800	403,205	3	854,008	705,534
Accrued interest receivable	3,824	41,912	5,109	50,845	49,719
Prepaid expenses	234,486	-	-	234,486	544,440
Interfund balances	(134,342)	134,342	-	-	-
	3,616,126	1,868,021	170,782	5,654,929	5,331,408
Investments (note 3)	551,941	10,360,002	1,315,749	12,227,692	12,630,580
Reinsurance recoverable (note 6)	-	9,140,000	-	9,140,000	7,187,041
Trust assets (note 4)	1,442,804	-	-	1,442,804	1,327,900
Capital assets (note 5)	1,817,374	-	-	1,817,374	2,061,416
	7,428,245	21,368,023	1,486,531	30,282,799	28,538,345
Liabilities					
Current liabilities					
Deferred revenue (note 2)	4,075,894	1,094,239	-	5,170,133	4,835,689
Accounts payable and accrued liabilities	881,340	99,527	-	980,867	678,119
Due to The Alberta Lawyers Insurance Association (note 11)	86,133	-	-	86,133	17,429
Deferred lease inducement	77,340	-	-	77,340	77,340
Capital lease obligation (note 7)	33,527	-	-	33,527	50,289
	5,154,234	1,193,766	-	6,348,000	5,658,866
Long-term liabilities					
Reserve for claims and related costs (note 6)	-	15,345,000	-	15,345,000	13,976,022
Trust liabilities (note 4)	1,442,804	-	-	1,442,804	1,327,900
Pension plan payable (note 9)	1,263,617	-	-	1,263,617	851,469
Deferred lease inducement	-	-	-	-	77,340
Capital lease obligation (note 7)	-	-	-	-	33,527
	2,706,421	15,345,000	-	18,051,421	16,266,258
	7,860,655	16,538,766	-	24,399,421	21,925,124
Fund balances					
Invested in capital assets	1,817,374			1,817,374	2,061,416
Externally restricted funds (note 8)	-				
Contingency reserve		4,829,257		4,829,257	5,158,092
Scholarship reserve			1,486,531	1,486,531	1,360,909
Unrestricted funds	(2,249,784)	-	-	(2,249,784)	(1,967,196)
	(432,410)	4,829,257	1,486,531	5,883,378	6,613,221
	7,428,245	21,368,023	1,486,531	30,282,799	28,538,345

Commitments (note 10)

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 year ended December 31, 2013

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2013 $	For the 14 months ended December 31, 2012 $
Revenue					
Practice fees	16,601,661	5,090,146	-	21,691,807	24,332,710
Investment income	80,374	1,065,762	74,451	1,220,587	1,580,782
Management fee (note 11)	1,692,000	-	-	1,692,000	1,582,000
Enrolment and application fees	487,770	-	-	487,770	455,638
Other	115,000	-	-	115,000	70,272
Fines and penalties	67,000	-	-	67,000	47,500
	19,043,805	6,155,908	74,451	25,274,164	28,068,902
Expenses					
Corporate costs					
Premises operating costs	1,495,237	-	-	1,495,237	1,599,009
General corporate costs	1,005,772	58,303	4,098	1,068,173	852,670
Amortization	845,464	-	-	845,464	880,983
Indemnity bond fees	-	249,072	-	249,072	295,010
Departmental costs					
Secretariat	1,801,492	-	-	1,801,492	1,870,373
Counsel	1,990,810	-	-	1,990,810	1,887,975
Trust safety	-	2,100,753	-	2,100,753	2,413,204
Complaints	1,852,477	-	-	1,852,477	1,870,981
Custodianships	-	644,455	-	644,455	498,313
Membership	1,643,780	-	-	1,643,780	1,226,091
Administration	1,362,152	-	-	1,362,152	1,444,978
Human resources	940,447	-	-	940,447	786,343
Business technology	2,422,754	-	-	2,422,754	2,546,777
Accounting	448,329	-	-	448,329	530,014
Professionalism, competence, & access	2,727,158	-	-	2,727,158	2,243,178
Investigations	539,144	-	-	539,144	786,385
Communications	584,520	-	-	584,520	757,402
Privacy and records management	448,421	-	-	448,421	426,048
Member regulation administration	697,416	-	-	697,416	633,543
Practice review	529,144	-	-	529,144	476,847
Policy and research	996,253	-	-	996,253	1,092,887
Provision for claims & related costs net (note 6)	-	1,335,776	-	1,335,776	1,924,237
Scholarships	-	-	40,000	40,000	20,000
	22,330,770	4,388,359	44,098	26,763,227	27,063,248
Excess (deficiency) of revenue over expenses for the year before other items	(3,286,965)	1,767,549	30,353	(1,489,063)	1,005,654
Other items:					
Unrealized gain (loss) on investments	(18,110)	399,616	95,269	476,775	25,422
Recovered costs	282,445	-	-	282,445	125,884
Interfund management fees	2,496,000	(2,496,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	(526,630)	(328,835)	125,622	(729,843)	1,156,960
Fund balance (deficiency) – beginning of year	94,220	5,158,092	1,360,909	6,613,221	5,456,261
Fund balance – end of year	(432,410)	4,829,257	1,486,531	5,883,378	6,613,221

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

The Law Society of Alberta

Non-consolidated Statement of Cash Flows

For the year ended December 31, 2013

	General Fund $	Assurance Fund $	Viscount Bennett Trust Fund $	2013 $	For the 14 months ended December 31, 2012 $
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	(526,630)	(328,835)	125,622	(729,843)	1,156,960
Items not affecting cash					
Amortization	845,464	-	-	845,464	880,983
Gain on sale of investments	10,983	(749,910)	(39,959)	(778,886)	(925,800)
Unrealized (gain) loss on investments	18,110	(399,616)	(95,269)	(476,775)	(25,422)
Provision for claims & related costs (note 6)	-	1,335,776	-	1,335,776	1,924,237
Lease inducement	(77,340)	-	-	(77,340)	(90,234)
	270,587	(142,585)	(9,606)	118,396	2,920,724
Change in non-cash working capital items	629,075	187,578	(693)	815,960	(3,664,691)
Claims and related costs paid – net of recoveries (note 6)	-	(1,919,757)	-	(1,919,757)	(537,195)
Increase in pension plan payable	412,148	-	-	412,148	112,400
	1,311,810	(1,874,764)	(10,299)	(573,253)	(1,168,762)
Investing activities					
Proceeds on disposal of investments	761,030	6,208,111	298,780	7,267,921	11,320,023
Purchase of investments	(362,590)	(4,930,663)	(316,118)	(5,609,371)	(9,308,968)
Purchase of capital assets	(601,422)	-	-	(601,422)	(956,974)
	(202,982)	1,277,448	(17,338)	1,057,128	1,054,081
Increase (decrease) in cash and cash equivalents	1,108,828	(597,316)	(27,637)	483,875	(114,681)
Cash and cash equivalents – beginning of the year	1,952,530	1,885,878	193,307	4,031,715	4,146,396
Cash and cash equivalents – end of the year	3,061,358	1,288,562	165,670	4,515,590	4,031,715
Cash and cash equivalents comprised of:					
Cash	406,367	172,973	15,031	594,371	470,431
Cash equivalents	2,654,991	1,115,589	150,639	3,921,219	3,561,284
	3,061,358	1,288,562	165,670	4,515,590	4,031,715
Interest received	93,516	205,095	20,510	319,121	473,763

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 11 "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 Summary of significant accounting policies

Basis of accounting

These financial statements are prepared in accordance with Canadian Accounting Standards for not for profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Use of estimates

The preparation of the financial statements in conformity with Canadian accounting standard not-for-profit organizations (ASNPO) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

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 initially measures financial assets and financial liabilities at fair value. It subsequently measures its investments at fair value. The financial assets subsequently measured at amortized cost include cash and cash equivalents, accounts receivable and accrued interest receivable. The financial liabilities subsequently recorded at amortized cost include accounts payable and accrued liabilities.

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. The investments which are not traded on the active market are recorded at cost.

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

The Society follows the deferral method for revenue recognition. The Society's membership year runs from March 15 to March 15 of the subsequent year. Amounts received or receivable from the membership fee and Assurance Fund levy that pertain to the membership 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 2 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. 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. Commencing in fiscal 2014, pursuant to changes in accounting standards, actuarial gains and losses will be fully reflected in the year such gain or loss occurs.

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.

3 Investments

The Society's investments are governed by a Statement of Investment Policies and Goals approved by the Benchers and 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:

	2013 **$**	**2012** **$**
Bonds denominated in Canadian dollars:		
Corporate	3,020,131	3,076,590
Municipal government		-
Provincial government	1,924,916	2,074,382
Federal government	2,263,528	2,302,760
	7,208,575	7,453,732
Equities denominated in Canadian dollars:	5,019,117	5,176,848
	12,227,692	12,630,580

4 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed must be forwarded to the Society. In 2013, approximately $201,000 (2012 – $195,000) 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 during the 2013 fiscal period were approximately $92,000 (2012 – $81,000).

5 Capital assets

	2013			2012
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**	**Net** **$**
Furniture and equipment	582,531	365,786	216,745	285,586
Computer	2,057,058	1,204,690	852,368	813,889
Leasehold improvements	1,943,869	1,195,608	748,261	961,941
	4,583,458	2,766,084	1,817,374	2,061,416

Included in furniture and equipment are assets acquired through capital lease with a net book value of $33,527 (2012 - $83,816).

6 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2013 **$**	**For the 14 months ended December 31, 2012** **$**
Reinsurance recoverable – beginning of period	7,187,041	4,987,116
Increase due to claims experience	1,952,959	2,199,925
Reinsurance recoverable – end of period	9,140,000	7,187,041

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

	2013 $	For the 14 months ended December 31, 2012 $
Reserve for claims and related costs – beginning of period	13,976,022	10,389,055
Claims paid	(1,975,189)	(461,405)
Related costs paid and accrued	(194,075)	(234,460)
Recoveries from members and third parties	249,507	158,670
	(1,919,757)	(537,195)
Increase due to claims experience	3,288,735	4,124,162
Reserve for claims and related costs – end of period	15,345,000	13,976,022
Case reserves (indemnity and external expenses)	6,870,000	4,786,259
IBNR (Incurred but not reported claim) reserve (indemnity and external expenses)	6,306,500	7,309,490
Provision for internal claim administration	376,000	306,845
Provision for adverse deviation	1,792,500	1,573,428
Reserve for claims and related costs	15,345,000	13,976,022

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:

	2013 $	For the 14 months ended December 31, 2012 $
Reserve for claims and related costs – beginning of period	13,976,022	10,389,055
Reinsurance recoverable – beginning of period	(7,187,041)	(4,987,116)
Net exposure – beginning of period	6,788,981	5,401,939
Claims paid	(1,975,189)	(461,405)
Related costs paid and accrued	(194,075)	(234,460)
Recoveries from members and third parties	249,507	158,670
	4,869,224	4,864,744

Provision for claims and related costs	1,335,776	1,924,237
Net exposure – end of period	6,205,000	6,788,981
Reserve for claims and related costs – end of period	15,345,000	13,976,022
Reinsurance recoverable – end of period	(9,140,000)	(7,187,041)
Net exposure – end of period	6,205,000	6,788,981

The discount rate applied by the actuary at December 31, 2013 is 3.46% (2012 – 3.15%). The undiscounted reserve balance at December 31, 2013 is $15 million (2012 – $13.4 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.

7 Capital lease obligation

The Society's capital lease obligation is as follows:

	$
2014	33,527

Interest expense incurred on the lease for the year amounted to $4,274 (for the 14 months ended December 31, 2012 - $10,239) at an annual interest rate of 8%.

8 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, revenue exceeded expenses and management fees of the Assurance Fund by $406,941 and this amount was, therefore, added to the reserve (for the 14 months ended December 31, 2012 – expenses and management fees exceeded revenue by $416,138).

Scholarship reserve

In the current period, revenue exceeded expenses by $125,622 and this amount was, therefore, added to the reserve (For the 14 months ended 2012 – $107,941).

9 Pension plan

a) Pension plan payable

	2013 $	2012 $
Pension accrued liability	405,042	197,741
Supplemental plan liability	858,575	653,728
	1,263,617	851,469

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, 2013, the details of the pension plan are as follows:

	2013 $	For the 14 months ended December 31, 2012 $
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	2,602,368	2,521,142
Society contributions during period	69,896	259,367
Actual return on plan assets	565,084	302,152
Less benefits paid during period to retirees	(168,519)	(480,293)
Fair value of plan assets – end of period	3,068,829	2,602,368
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	3,662,261	3,476,135
Current service cost	114,208	153,504
Interest on accrued benefit obligation	139,952	181,649
Actuarial (loss) gain during period	(69,248)	331,266
Less benefits paid during period to retirees	(168,519)	(480,293)
Accrued benefit obligations – end of period	3,678,654	3,662,261
Plan deficit	(609,825)	(1,059,893)

	2013 $	For the 14 months ended December 31, 2012 $
Pension cost		
Current service cost	114,208	153,504
Interest cost on accrued benefit obligation	139,952	181,649
Expected return on plan assets	(146,801)	(168,748)
Amortization of transitional obligation	-	-
Amortization of net actuarial losses	169,838	139,769
Pension cost recognized during period	277,197	306,174
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(197,741)	(150,934)
Plus contributions in the period	69,896	259,367
Less pension cost recognized during period	(277,197)	(306,174)
Ending balance – Accrued benefit liability	(405,042)	(197,741)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(609,825)	(1,059,893)
Unamortized net actuarial loss	204,783	862,152
Accrued benefit liability	(405,042)	(197,741)

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	46%
Canadian equity	19%
Cash and cash equivalents	4%
	100%

Assumptions

The actuary used the following rates in their calculations:

	2013	2012
Discount rate – beginning of period	3.85%	4.70%
Discount rate – end of period	4.65%	3.85%
Expected long-term rate of return on plan assets	5.75%	5.75%
Rate of compensation increase	3.50%	3.50%

b) 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.

	2013 $	For the 14 months ended Dec 31, 2012 $
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	1,139,865	883,470
Current service cost	58,930	45,943
Interest on accrued benefit obligation	44,518	47,210
Actuarial loss during period	35,195	254,185
Less benefits paid during period for retirees	(26,050)	(90,943)
Accrued benefit obligation – end of period	1,252,458	1,139,865
Pension cost		
Current service cost	58,930	45,943
Interest cost on accrued benefit obligation	44,518	47,210
Amortization of net actuarial losses	127,449	63,382
Pension cost recognized during period	230,897	156,535
Accrued benefit liability		
Beginning balance – accrued benefit liability	(653,728)	(588,136)
Plus contributions in the period	26,050	90,943
Less pension cost recognized during period	(230,897)	(156,535)
Ending balance – Accrued benefit liability	(858,575)	(653,728)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(1,252,458)	(1,139,865)
Unamortized net actuarial loss	393,883	486,137
Accrued benefit liability	(858,575)	(653,728)

10 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:

	$
2014	4,305,571
2015	2,687,414

2016	2,161,964
2017	2,202,950
2018 and thereafter	5,124,044

11 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 year ended December 31, 2013 is as follows:

	2013 $	**For the 6 months ended Dec 31, 2012 $**	**For the year ended June 30, 2012 $ (unaudited)**
Assets	117,870,456	110,190,881	115,421,349
Liabilities	(78,872,269)	(76,177,923)	(82,948,512)
Net assets	38,998,187	34,012,958	32,472,837
Revenue	29,334,501	13,855,857	24,376,120
Expenses	(29,095,924)	(12,376,916)	(28,087,126)
Excess (deficiency) of revenue over expenses before the following:	238,577	1,478,941	(3,711,006)
Unrealized gain on fair market value of investments	4,746,652	61,180	319,019
Excess (deficiency) of revenue over expenses	4,985,229	1,540,121	(3,391,987)
Cash flows from Operating Activities	(5,676,681)	(3,734,659)	1,472,859
Cash flows from Investing Activities	1,140,130	(2,141,353)	1,883,814
(Decrease) increase in cash and cash equivalents	(4,536,551)	(5,876,012)	3,356,673

During the twelve months ended December 31, 2013, the Society received from the Association an amount of $1,692,000 (for the 14 months ended December 31, 2012 – $1,582,000) for management fees. As at December 31, 2013, an amount of $86,133 (2012 – $17,429) 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 twelve months ended December 31, 2013, expenses of $155,292 (for the 14 months ended December 31, 2012 - $192,434) were incurred with these law firms. The Benchers are not involved in the retention of these firms.

12 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 the 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 0.88% to 0.90%. Included in investments are fixed income bonds in the amount of $7,208,575. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	2013 Interest rate Range	2013 Market value $	2012 Interest rate Range	2012 Market value $
Within five years	1.33 – 4.80%	2,758,767	1.34 – 4.85%	3,053,481
Greater than five years but less than ten years	2.65 – 5.68%	2,799,655	2.65 – 5.68%	2,619,848
Greater than ten years	2.50 – 4.70%	1,650,153	1.50 – 4.70%	1,780,403
		7,208,575		7,453,732

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, by only investing in securities that are liquid, highly rated and traded in active markets and by insuring accounts receivable 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.

13 Subsequent events

Subsequent to year end, the Benchers approved the transition of Assurance Fund claims from an adjudicative to an insurance model effective July 1, 2014. Current Assurance Fund claims will be processed under the adjudicative model, and all new claims arising July 1, 2014 and thereafter will be handled within the insurance model. Claims will be subject to Alberta's Limitations Act, in the same manner as errors and omissions claims.