

# **The Law Society of Alberta**

Non-consolidated Financial Statements  
**October 31, 2011**



February 2, 2012

## **Independent Auditor's Report**

### **To the Directors of The Law Society of Alberta**

We have audited the accompanying financial statements of **The Law Society of Alberta**, which comprise the balance sheet as at October 31, 2011 and the statements of revenue, expenses and fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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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"PwC" refers to PricewaterhouseCoopers LLP, an Alberta limited liability partnership



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The Law Society of Alberta** as at October 31, 2011 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

## Non-consolidated Balance Sheet

As at October 31, 2011

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2011 \$	2010 \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	2,675,086	1,330,250	141,060	4,146,396	3,341,473
Accounts receivable	199,230	158,970	3	358,203	328,570
Accrued interest	13,215	64,751	7,852	85,818	80,988
Prepaid expenses	211,547	-	-	211,547	240,146
Interfund balances	3,186	(3,186)	-	-	-
	3,102,264	1,550,785	148,915	4,801,964	3,991,177
<b>Investments</b> (note 3)	1,213,447	11,352,917	1,124,053	13,690,417	14,390,942
<b>Reinsurance recoverable</b> (note 6)	-	4,987,116	-	4,987,116	5,214,130
<b>Trust assets</b> (note 4)	1,212,184	-	-	1,212,184	840,672
<b>Capital assets</b> (note 5)	1,985,425	-	-	1,985,425	1,333,354
	7,513,320	17,890,818	1,272,968	26,677,106	25,770,275
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	840,035	76,697	20,000	936,732	778,073
Due to The Alberta Lawyers Insurance Association (note 10)	3,666	-	-	3,666	4,228
Deferred lease inducement	77,342	-	-	77,342	77,342
Capital lease obligation (note 7)	50,289	-	-	50,289	-
	971,332	76,697	20,000	1,068,029	859,643
<b>Long-term liabilities</b>					
Reserve for claims and related costs (note 6)	-	10,389,055	-	10,389,055	10,906,862
Trust liabilities (note 4)	1,212,184	-	-	1,212,184	840,672
Pension plan payable (note 9)	739,069	-	-	739,069	654,231
Deferred lease inducement	167,574	-	-	167,574	244,914
Capital lease obligation (note 7)	86,261	-	-	86,261	-
	2,205,088	10,389,055	-	12,594,143	12,646,679
	3,176,420	10,465,752	20,000	13,662,172	13,506,322
<b>Fund balances</b>					
Invested in capital assets	1,985,425	-	-	1,985,425	1,333,354
Externally restricted funds (note 8)					
Contingency reserve	-	7,425,066	-	7,425,066	7,341,167
Scholarship reserve	-	-	1,252,968	1,252,968	1,238,299
Unrestricted funds	2,351,475	-	-	2,351,475	2,351,133
	4,336,900	7,425,066	1,252,968	13,014,934	12,263,953
	7,513,320	17,890,818	1,272,968	26,677,106	25,770,275
<b>Commitments</b> (note 10)					

### Approved by the Benchers

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Bencher

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Bencher

# The Law Society of Alberta

## Non-consolidated Statement of Revenue, Expenses and Fund Balances

For the year ended October 31, 2011

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2011 \$	2010 \$
<b>Revenue</b>					
Practice fees	15,619,211	4,935,563	-	20,554,774	18,262,079
Investment income	97,528	845,377	86,159	1,029,064	951,724
Management fee (note 11)	1,300,080	-	-	1,300,080	1,175,604
Enrolment and application fees	397,747	-	-	397,747	335,805
Other	81,866	-	-	81,866	52,777
Fines and penalties	36,500	-	-	36,500	36,000
	<u>17,532,932</u>	<u>5,780,940</u>	<u>86,159</u>	<u>23,400,031</u>	<u>20,813,989</u>
<b>Expenses</b>					
Corporate costs					
Premises operating costs	1,293,500	-	-	1,293,500	997,991
General corporate costs	93,609	(1,498)	-	92,111	52,149
Amortization	817,608	-	-	817,608	746,257
Outside services	99,723	58,571	3,067	161,361	194,659
Indemnity bond fees	-	259,985	-	259,985	259,985
Departmental costs					
Secretariat	1,244,978	-	-	1,244,978	1,243,980
Counsel	1,573,922	-	-	1,573,922	1,265,945
Trust safety	-	2,329,709	-	2,329,709	2,329,752
Complaints	1,523,480	-	-	1,523,480	1,392,802
Custodianships	-	449,262	-	449,262	473,230
Membership	1,077,035	-	-	1,077,035	1,114,492
Administration	1,411,572	-	-	1,411,572	1,305,495
Human resources	529,357	-	-	529,357	513,332
Information technology	1,569,212	-	-	1,569,212	1,202,233
Accounting	521,909	-	-	521,909	502,787
Professionalism, competence, & access	687,956	-	-	687,956	546,783
Investigations	776,612	-	-	776,612	913,207
Communications	587,842	-	-	587,842	474,296
Privacy and records management	357,480	-	-	357,480	357,775
Member regulation administration	792,233	-	-	792,233	628,281
Practice review	301,745	-	-	301,745	279,056
Policy and research	849,112	-	-	849,112	737,602
Business enablement services	665,471	-	-	665,471	-
Grants and contributions	2,357,233	-	-	2,357,233	2,130,552
Provision for claims & related costs (note 6)	-	314,508	-	314,508	1,552,385
Scholarships	-	-	40,000	40,000	45,000
	<u>19,131,589</u>	<u>3,410,537</u>	<u>43,067</u>	<u>22,585,193</u>	<u>21,260,026</u>
Excess (deficiency) of revenue over expenses for the year before other items	(1,598,657)	2,370,403	43,092	814,838	(446,037)
Other items:					
Unrealized gain (loss) on investments	33,327	(245,407)	(28,423)	(240,503)	408,529
Recovered costs	156,023	20,623	-	176,646	142,297
Interfund management fees	2,061,720	(2,061,720)	-	-	-
<b>Excess of revenue over expenses for the year</b>	652,413	83,899	14,669	750,981	104,789
<b>Fund balance – beginning of year</b>	<u>3,684,487</u>	<u>7,341,167</u>	<u>1,238,299</u>	<u>12,263,953</u>	<u>12,159,164</u>
<b>Fund balance – end of year</b>	<u>4,336,900</u>	<u>7,425,066</u>	<u>1,252,968</u>	<u>13,014,934</u>	<u>12,263,953</u>

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 October 31, 2011

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2011 \$	2010 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Excess of revenue over expenses for the year	652,413	83,899	14,669	750,981	104,789
Items not affecting cash					
Amortization	817,608	-	-	817,608	746,257
(Gain) loss on sale of investments	4,011	(439,180)	(46,253)	(481,422)	(424,062)
Unrealized (gain) loss on investments	(33,327)	245,407	28,423	240,503	(408,529)
Provision for claims & related costs (note 6)	-	314,508	-	314,508	1,552,385
Decrease in lease inducement	(77,340)	-	-	(77,340)	(77,340)
	1,363,365	204,634	(3,161)	1,564,838	1,493,500
Change in non-cash working capital items	275,250	(142,528)	19,511	152,233	(214,574)
Claims and related costs paid – net of recoveries (note 6)	-	(605,301)	-	(605,301)	(45,140)
Increase in pension plan payable	84,838	-	-	84,838	86,317
	1,723,453	(543,195)	16,350	1,196,608	1,320,103
<b>Investing activities</b>					
Proceeds on disposal of investments	261,176	6,467,364	232,686	6,961,226	7,789,016
Purchase of investments	(225,553)	(5,576,853)	(217,376)	(6,019,782)	(7,946,939)
Purchase of capital assets	(1,333,129)	-	-	(1,333,129)	(453,911)
	(1,297,506)	890,511	15,310	(391,685)	(611,835)
<b>Increase in cash and cash equivalents</b>	425,947	347,316	31,660	804,923	708,268
<b>Cash and cash equivalents – beginning of the year</b>	2,249,139	982,934	109,400	3,341,473	2,633,205
<b>Cash and cash equivalents – end of the year</b>	2,675,086	1,330,250	141,060	4,146,396	3,341,473
<b>Cash and cash equivalents comprised of:</b>					
Cash	118,217	131,881	28,394	278,492	286,545
Treasury bills	2,556,869	1,198,369	112,666	3,867,904	3,054,928
	2,675,086	1,330,250	141,060	4,146,396	3,341,473
Interest received	101,194	290,659	28,097	419,950	419,604

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

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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

## 2 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

Financial Instruments are initially recognized at fair value on the balance sheet. The Society has classified each financial instrument into the following categories:

<b>Category</b>	<b>Financial Instrument</b>
Loans and receivables	Accounts receivable, accrued interest, reinsurance recoverable
Held-for-trading	Investments, cash and cash equivalents, trust assets

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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Financial liabilities

Accounts payable and accrued liabilities, due to the Alberta Lawyers Insurance Association, pension plan payable, capital lease payable, trust liabilities

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

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

## **Revenue recognition**

Members’ fees set by the Benchers, which are billed in January, 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 it is due. Members’ fees and the levy 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.



# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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## 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.

## Investments

Investments are carried at market value with unrealized gains or losses recognized directly in the statement of revenue, expenses and fund balances.

## 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.

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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## 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. It is possible, based on existing knowledge, that changes in 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 to the current year's presentation.

## 3 Investments

The Society's investments are managed under contract with an investment manager and consist of bonds and equities.

Investments at October 31 are as follows:

	2011 \$	2010 \$
<b>Bonds denominated in Canadian dollars:</b>		
Corporate	2,888,361	3,253,774
Municipal government	378,621	680,818
Provincial government	2,064,991	2,025,507
Federal government	2,692,353	2,655,009
	<hr/> 8,024,326	<hr/> 8,615,108
<b>Equities denominated in the following currencies:</b>		
Canadian dollar	2,326,534	2,425,330
United States dollar	1,852,365	2,104,058
All others	1,487,192	1,246,446
	<hr/> 5,666,091	<hr/> 5,775,834
	<hr/> 13,690,417	<hr/> 14,390,942

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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## 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 2011, approximately \$430,000 (2010 – \$158,000) 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 2011 fiscal year end were approximately \$58,000 (2010 – \$29,000).

## 5 Capital assets

	2011			2010
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	411,221	152,971	258,250	116,424
Computer	2,247,047	1,654,903	592,144	714,849
Leasehold improvements	2,206,292	1,071,261	1,135,031	502,081
	<u>4,864,560</u>	<u>2,879,135</u>	<u>1,985,425</u>	<u>1,333,354</u>

Included in furniture and equipment are assets acquired through capital lease with a net book value of \$142,487.

## 6 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2011 \$	2010 \$
Reinsurance recoverable – beginning of year	5,214,130	3,697,691
(Decrease) increase due to claims experience	<u>(227,014)</u>	<u>1,516,439</u>
Reinsurance recoverable – end of year	<u>4,987,116</u>	<u>5,214,130</u>

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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

	2011 \$	2010 \$
<b>Reserve for claims and related costs – beginning of year</b>	10,906,862	7,883,178
Claims paid	(584,933)	(40,724)
Related costs paid and accrued	(25,710)	(11,491)
Recoveries from members and third parties	5,342	7,075
	<u>(605,301)</u>	<u>(45,140)</u>
Increase due to claims experience	87,494	3,068,824
<b>Reserve for claims and related costs – end of year</b>	<u>10,389,055</u>	<u>10,906,862</u>
Case reserves with provision for adverse deviation	5,470,221	4,967,572
Provision for development and claims incurred but not reported	4,577,183	5,658,429
Provision for internal claim administration	341,651	280,861
<b>Reserve for claims and related costs</b>	<u>10,389,055</u>	<u>10,906,862</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.

In summary, the net exposure is summarized as follows:

	2011 \$	2010 \$
Reserve for claims and related costs – beginning of year	10,906,862	7,883,178
Reinsurance recoverable – beginning of year	(5,214,130)	(3,697,691)
Net exposure – beginning of year	5,692,732	4,185,487
Claims paid	(584,933)	(40,724)
Related costs paid and accrued	(25,710)	(11,491)
Recoveries from members and third parties	5,342	7,075
	<u>5,087,431</u>	<u>4,140,347</u>
Provision for claims and related costs	314,508	1,552,385
Net exposure – end of year	<u>5,401,939</u>	<u>5,692,732</u>
Reserve for claims and related costs – end of year	10,389,055	10,906,862
Reinsurance recoverable – end of year	(4,987,116)	(5,214,130)
Net exposure – end of year	<u>5,401,939</u>	<u>5,692,732</u>

# The Law Society of Alberta

## Notes to Non-consolidated Financial Statements

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The discount rate applied by the actuary at October 31, 2011 is 3.5% (2010 – 3.97%). The undiscounted reserve balance at October 31, 2011 is \$9.2 million (2010 – \$9.8 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:

	\$
2012	50,289
2013	50,289
2014	35,972
Total minimum lease payments	136,550

Interest expense incurred on the lease for the year amounted to \$11,786 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 year, revenue exceeded expenses and management fees of the Assurance Fund by \$83,899 (2010 – \$534,013 drawn from the reserve) and this amount, therefore, was added to the reserve.

#### Scholarship reserve

In the current year, revenues were in excess of expenses by \$14,669 and this amount was, therefore, added to the reserve (2010 – \$48,009).

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

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## 9 Pension plan

### a) Pension plan payable

	<b>2011</b>	<b>2010</b>
	\$	\$
Pension accrued liability	150,934	142,457
Supplemental plan liability	588,135	511,774
	<u>739,069</u>	<u>654,231</u>

- 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 October 31, 2011, the details of the pension plan are as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – beginning of year	2,376,340	2,132,611
Society contributions during year	194,029	160,550
Actual return on plan assets	96,985	228,003
Less benefits paid during year to retirees	(146,212)	(144,824)
	<u>2,521,142</u>	<u>2,376,340</u>
<b>Fair value of plan assets – end of year</b>		
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of year	3,347,744	2,800,475
Current service cost	123,652	136,858
Interest on accrued benefit obligation	150,141	153,807
Actuarial loss (gain) during year	810	401,428
Less benefits paid during year to retirees	(146,212)	(144,824)
	<u>3,476,135</u>	<u>3,347,744</u>
<b>Accrued benefit obligations – end of year</b>		
<b>Plan deficit</b>	<u>(954,993)</u>	<u>(971,404)</u>

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

October 31, 2011

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	2011 \$	2010 \$
<b>Pension cost</b>		
Current service cost	123,652	136,858
Interest cost on accrued benefit obligation	150,141	153,807
Expected return on plan assets	(156,016)	(139,131)
Amortization of transitional obligation	4,760	15,873
Amortization of net actuarial losses	79,969	37,841
	<hr/>	<hr/>
<b>Pension cost recognized during year</b>	202,506	205,248
	<hr/>	<hr/>
<b>Accrued benefit asset</b>		
Beginning balance – Accrued benefit asset (liability)	(142,457)	(97,759)
Plus contributions in the year	194,029	160,550
Less pension cost recognized during year	(202,506)	(205,248)
	<hr/>	<hr/>
<b>Ending balance – Accrued benefit asset (liability)</b>	(150,934)	(142,457)
	<hr/>	<hr/>
<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	(954,993)	(971,404)
Unamortized transitional obligation	-	4,760
Unamortized net actuarial loss	804,059	828,187
	<hr/>	<hr/>
<b>Accrued benefit asset (liability)</b>	(150,934)	(142,457)
	<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	31%
Foreign equities	38%
Canadian equity	23%
Cash and cash equivalents	8%
	<hr/>
	100%
	<hr/>

## Assumptions

The actuaries used the following rates in their calculations:

	2011	2010
Discount rate – beginning of year	4.50%	5.50%
Discount rate – end of year	4.70%	4.50%
Expected long-term 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 Non-consolidated Financial Statements

October 31, 2011

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### 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.

	2011 \$	2010 \$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of year	794,353	552,540
Current service cost	31,866	31,596
Interest on accrued benefit obligation	35,909	30,588
Actuarial loss during year	45,948	204,002
Less benefits paid during year for retirees	(24,606)	(24,373)
	<hr/>	<hr/>
<b>Accrued benefit obligation – end of year</b>	<b>883,470</b>	<b>794,353</b>
<b>Pension cost</b>		
Current service cost	31,866	31,596
Interest cost on accrued benefit obligation	35,909	30,588
Amortization of net actuarial losses	33,192	3,808
	<hr/>	<hr/>
<b>Pension cost recognized during year</b>	<b>100,967</b>	<b>65,992</b>
<b>Accrued benefit liability</b>		
Beginning balance – accrued benefit liability	(511,774)	(470,155)
Plus contributions in the year	24,606	24,373
Less pension cost recognized during year	(100,967)	(65,992)
	<hr/>	<hr/>
<b>Ending balance – Accrued benefit liability</b>	<b>(588,135)</b>	<b>(511,774)</b>
<b>Reconciliation of accrued benefit liability</b>		
Funded status (plan deficit)	(883,470)	(794,353)
Unamortized net actuarial loss	295,335	282,579
	<hr/>	<hr/>
<b>Accrued benefit liability</b>	<b>(588,135)</b>	<b>(511,774)</b>

### 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. Future minimum lease payments are as follows:

	\$
2012	1,559,217
2013	1,549,633
2014	1,551,886
2015	693,483
2016 and thereafter	2,880,969



# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

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## 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 at the year ended June 30, 2011 is as follows:

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Assets	110,032,620	103,395,670
Liabilities	<u>(74,167,796)</u>	<u>(72,057,175)</u>
Net assets	<u>35,864,824</u>	<u>31,338,495</u>
Revenue	23,187,695	23,859,904
Expenses	<u>(23,869,182)</u>	<u>(27,392,913)</u>
<b>Deficiency of revenue over expenses before the following:</b>	(681,487)	(3,533,009)
Unrealized gain (loss) on fair market value of investments	<u>5,207,816</u>	<u>(2,336,469)</u>
<b>Excess (deficiency) of revenue over expenses</b>	<u>4,526,329</u>	<u>(5,869,478)</u>
Cash flows from Operating Activities	(2,395,499)	2,908,134
Cash flows from Investing Activities	<u>8,048,602</u>	<u>(1,969,664)</u>
<b>Increase in cash and cash equivalents</b>	<u>5,653,103</u>	<u>938,470</u>

During the year ended October 31, 2011, the Society received from the Association an amount of \$1,300,080 (2010 – \$1,175,604) for management fees. As at October 31, 2011, an amount of \$3,666 (2010 – \$4,228) 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 Law Society of Alberta

Notes to Non-consolidated Financial Statements

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## 12 Financial instruments

### Fair Value

The fair market value of all instruments, excluding investments and pension plan payable, approximate book value due to their short term nature. The Society records its equity investments at fair market value based upon quoted market values. Bond values are determined from multiple sources using the average bid/ask spread and at various times of day. The fair value of the pension plan payable is based upon annual actuarial assessments.

### 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.

### 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 0.74% to 0.9%. Included in investments are fixed income bonds in the amount of \$8,024,326. The maturity dates and interest rates are as follows:

		2011		2010
Maturity date from balance sheet date	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	2.20 – 6.15%	2,153,799	2.20 – 6.15%	3,171,234
Greater than five years but less than ten years	3.25 – 5.68%	5,249,521	3.66 – 5.68%	4,796,752
Greater than ten years	4.70%	621,006	4.70 – 5.70%	647,122
		<u>8,024,326</u>		<u>8,615,108</u>

### 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.

# **The Law Society of Alberta**

Notes to Non-consolidated Financial Statements

October 31, 2011

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## **Currency risk**

The Society is exposed to currency risk to the extent that investments are not denominated in Canadian dollars (refer to note 3). The Society has not entered into any foreign currency contracts to mitigate this risk.

## **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 Capital Disclosures**

The Society defines its capital as the amounts included in Fund Balances.

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

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