

The Alberta Lawyers Insurance Association

Non-consolidated Financial Statements
June 30, 2010

December 9, 2010

Auditors' Report

To the Directors of The Alberta Lawyers Insurance Association

We have audited the non-consolidated balance sheet of **The Alberta Lawyers Insurance Association** as at June 30, 2010 and the non-consolidated statements of revenue, expenses and net assets and non-consolidated cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

The Alberta Lawyers Insurance Association

Non-consolidated Balance Sheet

As at June 30, 2010

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	13,538,705	12,600,235
Accounts receivable	3,812,143	5,502,760
Accrued interest	363,992	348,750
Due from 1452597 Alberta Ltd. (note 8)	579,557	571,311
Due from The Law Society of Alberta (note 8)	4,152	58,783
	<hr/>	<hr/>
	18,298,549	19,081,839
Investments (note 4)	85,051,328	80,146,107
Capital assets (note 5)	<hr/>	<hr/>
	45,793	28,837
	<hr/>	<hr/>
	103,395,670	99,256,783
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	213,180	1,263,333
Deferred revenue	16,809,995	14,758,477
	<hr/>	<hr/>
	17,023,175	16,021,810
Reserve for claims and related costs (note 6)	<hr/>	<hr/>
	55,034,000	46,027,000
Net assets		
Unrestricted	31,338,475	37,207,953
Share capital (note 7)	20	20
	<hr/>	<hr/>
	31,338,495	37,207,973
	<hr/>	<hr/>
	103,395,670	99,256,783

Approved by the Board of Directors

_____ Director

_____ Director

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2010

	2010 \$	2009 \$
Revenue		
Annual levy	15,398,169	10,473,951
Investment income	8,461,735	4,648,147
	<u>23,859,904</u>	<u>15,122,098</u>
Expenses		
Provision for claims and related costs (note 6)	20,174,408	15,184,086
Premium paid to Canadian Lawyers Insurance Association	3,799,299	2,721,460
Salaries and employee benefits	1,833,275	1,285,131
Management fee (note 8)	1,122,436	987,768
Investment counsel fee	233,235	228,449
Administration	121,283	151,848
Professional fees	41,590	43,637
Consultant fees	36,279	60,469
Bad debt recovery	(3,675)	(5,959)
Amortization	24,583	12,424
Loss prevention	10,200	23,250
	<u>27,392,913</u>	<u>20,692,563</u>
Excess (deficiency) of revenue over expenses for the year before the following	(3,533,009)	(5,570,465)
Unrealized loss on fair market value of investments	(2,336,469)	(8,527,923)
Premium credit (note 11)	-	735,746
	<u>(5,869,478)</u>	<u>(13,362,642)</u>
Deficiency of revenue over expenses for the year	(5,869,478)	(13,362,642)
Unrestricted net assets – Beginning of year	<u>37,207,973</u>	<u>50,570,595</u>
Unrestricted net assets – End of year	<u>31,338,495</u>	<u>37,207,973</u>

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Cash Flows

For the year ended June 30, 2010

	2010 \$	2009 \$
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	(5,869,478)	(13,362,642)
Items not affecting cash		
Amortization	24,583	12,424
Gain on sale of investments	(5,313,565)	(1,045,996)
Unrealized loss on fair market value of investments	2,336,469	8,527,923
Provision for claims and related costs (note 6)	20,174,408	15,184,086
	<u>11,352,417</u>	<u>9,315,795</u>
Changes in non-cash working capital items	2,723,125	3,654,115
Claims and related costs paid – net of recoveries (note 6)	(11,167,408)	(14,304,086)
	<u>2,908,134</u>	<u>(1,334,176)</u>
Investing activities		
Proceeds on disposal of investments	39,678,363	13,448,372
Purchase of investments	(41,606,487)	(11,907,444)
Purchase of capital assets	(41,540)	(20,207)
	<u>(1,969,664)</u>	<u>1,520,721</u>
Increase in cash and cash equivalents	938,470	186,545
Cash and cash equivalents – Beginning of year	<u>12,600,235</u>	<u>12,413,690</u>
Cash and cash equivalents – End of year	<u>13,538,705</u>	<u>12,600,235</u>
Cash and cash equivalents are comprised of		
Cash	5,429,778	7,928,967
Short-term investments	8,108,927	4,671,268
	<u>13,538,705</u>	<u>12,600,235</u>
Interest received	2,147,236	2,202,418

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

1 General

The Alberta Lawyers Insurance Association (the “Association”) was incorporated on June 6, 1988 under Part 9 of the Companies Act of Alberta, chapter C-21, RSA 2000. On January 30, 2006, the Association was converted from a company limited by guarantee to a company limited by shares (see note 7). The Association administers a program under which active members of the Law Society of Alberta (the “Law Society”) in private practice (insured lawyers) have mandatory coverage for errors and omissions of \$1,000,000 per occurrence, with an annual aggregate limit of \$2,000,000. The Association has contracted with the Canadian Lawyers Insurance Association (“CLIA”) for group coverage subject to a group deductible of \$300,000 for each claim. The Association is subject to premiums and other assessments that may arise from the agreement with CLIA. The Association meets the qualifications of a non-profit organization as defined by the Income Tax Act and as such is exempt from taxes. The financial statements of the Association are prepared on a non-consolidated basis. Refer to Note 8 “Related Party Transactions” for justification of this decision.

2 Change in accounting policies and future accounting changes

Effective in current year

a) “Financial statement Presentation by Not-for-Profit Organizations” Handbook Section 4400

Effective July 1, 2009 the Association has adopted retrospectively the changes to recommendations in CICA Handbook Section 4400, Financial Statement Presentation by Not-for-Profit Organizations that modified the requirements with respect to various elements of financial statement presentation including:

- requiring the Association to prepare the statement of cash flows in accordance with Handbook Section 1540.

The standards impact the Association’s disclosure but did not affect the Association’s financial results.

Effective in future years

a) The future of accounting standards for not-for-profit organizations (NPO)

In March 2010, the Accounting Standards Board issued an exposure draft outlining the future accounting standards applicable for Not-for-Profit Associations. The options outlined therein include the International Financial Reporting Standards (“IFRS”) or Private Entity generally accepted accounting principles supplemented by the 4400 series of accounting standards at this time. Comments on this exposure draft were due July 15, 2010 and it is anticipated that the final, approved standards will be issued in late 2010 with a proposed implementation date for fiscal years beginning on or after January 1, 2010 with earlier adoption permitted. The Association continues to monitor developments in this area and will consider the impact to the financial reporting and disclosure of the Association as announcements and decisions are made by the standard setters.

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

3 Summary of significant accounting policies

Revenue recognition

The levy is determined prior to the end of the fiscal year and amounts are due from insured lawyers prior to July 1st. Levy revenue is recorded evenly throughout the year. Amounts received or receivable from insured lawyers that pertain to the period subsequent to the year end are recorded as deferred revenue.

Investment income

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

Reserve and Provision for claims and related costs

The provision for claims and related costs is based upon the change from year to year in the reinsurance recoverables and reserve for claims and related cost. The reserve value is based on the greater of the Association's estimate of the incurred cost of claims during the current year and the actuarial computed discounted cost of possible claims for the current year.

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

Recoveries

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

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments comprised of treasury bills that mature within 90 days and are readily convertible to known amounts of cash and have an 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 net assets.

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

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%
Computers	33 1/3%

Donated services

A portion of the Association's work is dependent on the services of volunteers, in particular the significant contribution of the Benchers, the Insurance Committee, and the Claims Committee. These services are not normally purchased by the Association and, due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.

Use of estimates

Some items in the financial statements are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. The most significant of these is an estimate for the reserve for claims and related costs. It is possible, based on existing knowledge, that change in future conditions would require a material change in the recognized amounts of certain items.

Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, due from The Law Society of Alberta, due from 1452597 Alberta Ltd., investments, accounts payable and accrued liabilities.

The Association has classified each financial instrument into the following categories:

Category	Financial Instrument
Loans and receivables	Accounts receivable, accrued interest, due from the Law Society of Alberta, due from 1452597 Alberta Ltd.
Held-for-trading	Investments, Cash, Short-term Investments
Financial liabilities	Accounts payable and accrued 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. Loans, receivables and financial liabilities are measured at cost or amortized cost. Held-for-trading investments are measured at fair market value with unrealized gains or losses recognized in the statement of operations.

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

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

Comparative figures

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

4 Investments

The Association's investments are managed under contract with Mawer Investment Management Ltd. The Association's investments are carried at market value, subject to normal market fluctuations, and the statement of revenue and expense reports both realized and unrealized gains and losses on investments. The Association's investments consist of bonds and equity investments.

Investments at June 30 are as follows:

	2010 \$	2009 \$
Bonds (Quoted Canadian)		
Corporate	18,338,030	15,654,735
Municipal	3,047,961	2,086,760
Provincial government	11,687,963	11,650,180
Federal government	16,030,120	13,107,795
	<u>49,104,074</u>	<u>42,499,470</u>
Equities		
Quoted Canadian	15,131,241	15,601,700
Quoted United States	13,372,259	9,729,292
Quoted International	7,443,754	12,315,645
	<u>35,947,254</u>	<u>37,646,637</u>
	<u>85,051,328</u>	<u>80,146,107</u>

5 Capital assets

	2010		2009	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	35,052	15,267	19,785	13,589
Computers	66,498	40,490	26,008	15,248
	<u>101,550</u>	<u>55,757</u>	<u>45,793</u>	<u>28,837</u>

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Notes to Non-consolidated Financial Statements

As at June 30, 2010

6 Reserve for claims and related costs

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

	2010 \$	2009 \$
Reserve for claims and related costs – Beginning of year	46,027,000	45,147,000
Claims paid and accrued	(6,947,420)	(16,244,064)
Related costs paid and accrued	(5,230,662)	(5,464,262)
Recoveries	1,010,674	7,404,240
	<u>(11,167,408)</u>	<u>(14,304,086)</u>
Increase due to claims experience	20,174,408	15,184,086
Reserve for claims and related costs – End of year	<u>55,034,000</u>	<u>46,027,000</u>

A portion of the reserve for claims and related costs is expected to be paid within the next fiscal year. This amount cannot be reasonably determined and therefore has not been included in current liabilities.

The discount rate applied by the actuary at June 30, 2010 is 4.40% (2009 – 4.0%). The undiscounted reserve balance at June 30, 2010 is \$55,896,000 (2009 – \$46,748,000).

7 Share capital

On January 30, 2006, the Association, by application to the Court of Queen’s Bench, was converted from a company limited by guarantee to a company limited by shares. As a result of this conversion, share capital of \$20 was issued representing four common shares; three shares issued to the Law Society and one common share issued to the person from time to time holding the office of Executive Director of the Law Society, as bare trustee for the Law Society.

8 Related party transactions

As described in note 7, the Association is a wholly owned subsidiary of the Law Society. During the year, the Association paid the Law Society an amount of \$1,122,436 (2009 – \$987,768) for management fees. The balance due from the Law Society at June 30 of \$4,152 (2009 – \$58,783) is non-interest bearing and due on demand.

1452597 Alberta Ltd. (“1452597”) is a wholly owned subsidiary of the Association and was incorporated on February 12, 2009 under the Business Corporations Act. Share capital of \$1 consists of 100 common shares.

The sole purpose of 1452597 is to hold real property obtained under the terms of a claim settlement regarding the Association’s insurance coverage for members of the Law Society. The claim will be

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

concluded by selling the property and transferring the net proceeds to the Association at which time 1452597 will be wound up. This is expected to occur within the next fiscal year.

The Association does not consolidate the results of 1452597 in its financial statements as permitted by CICA 4450 "Reporting Controlled and Related Entities by Not-for-Profit Organizations" and CICA 4460 "Disclosure of Related Party Transactions". A summary of 1452597's financial information at June 30 is as follows:

	2010 \$	2009 \$
Assets	568,071	568,071
Liabilities	<u>579,557</u>	<u>571,311</u>
Net assets	<u>(11,486)</u>	<u>(3,240)</u>
Expenses	<u>8,246</u>	<u>3,240</u>
Excess of revenues over expenditures	<u>(8,246)</u>	<u>(3,240)</u>
Cash flows from operating activities	-	571,311
Cash flows from investing activities	<u>-</u>	<u>(571,311)</u>
Increase in cash and cash equivalents	<u>-</u>	<u>-</u>

9 Financial instruments

Fair value

The fair market value of all financial instruments, except for investments, approximates book value due to their short term nature. The Association 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 reserve for claims and related costs is based upon annual actuarial assessments.

Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 0.45% (2009 – 0.2%).

Included in investments are fixed income bonds in the amount of \$49,104,074 (2009 – \$42,499,470). The maturity dates and interest rate ranges are as follows:

The Alberta Lawyers Insurance Association

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As at June 30, 2010

Maturity dates (from balance sheet date)	Interest rate range	Market value \$	Interest rate range	Market value \$
	2010		2009	
Within five years	2.2 – 6.15%	19,745,014	3.55 – 6.15%	18,380,715
Greater than five years but less than ten years	3.66 – 5.68%	23,454,866	4.01 – 4.65%	14,511,020
Greater than ten years	5.7 – 6.45%	<u>5,904,194</u>	5.65 – 6.5%	<u>9,607,735</u>
		<u>49,104,074</u>		<u>42,499,470</u>

The Association manages the interest rate risk on fixed income bonds through the use of an investment manager. Agreed investment parameters are in place with the external investment manager to mitigate interest rate risk.

Price risk

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

Currency risk

The Association is exposed to currency risk to the extent that investments are not denominated in Canadian dollars. Refer to note 4. The Association has not entered into any foreign currency contracts to mitigate this risk.

Liquidity risk

The Association uses an investment manager for the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if the Association is required to sell at a time that the market for these investments is unfavourable.

The Alberta Lawyers Insurance Association

Notes to Non-consolidated Financial Statements

As at June 30, 2010

10 Equity in Canadian Lawyers' Insurance Association

The Association is a subscriber to the Canadian Lawyers Insurance Association (CLIA) a reciprocal insurance exchange through which the law societies of ten provinces and territories (or their associated liability insurance entities) enter into agreements of mutual indemnification. Separate reserves are maintained by CLIA with respect to risks assumed and the Association has an interest in surpluses in these reserves. CLIA prepares annual Subscriber Accounts, as at the end of CLIA's fiscal year (December 31), which are approved by the CLIA Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscribers Accounts of CLIA as at December 31, 2009 show the Association's equity to be approximately \$6.5 million (December 31, 2008 – \$5.2 million). The Association's equity is not reflected in these financial statements.

11 Premium credit

During the prior year the Association was awarded a refund of previous years' mandatory premiums from CLIA in the amount of \$735,746 (2010 – \$0). This amount was an accumulation of the excess premiums paid over claims and related investment income for a number of policy years.

12 Capital disclosures

The Association defines its capital as the amounts included in Net Assets.

The Association's objective when managing Net Assets 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 Association sets the amount of unrestricted Net Assets 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.