

**The Alberta Lawyers Insurance
Association**

Financial Statements
June 30, 2007

December 6, 2007

Auditors' Report

**To the Directors of
The Alberta Lawyers Insurance Association**

We have audited the balance sheet of **The Alberta Lawyers Insurance Association** as at June 30, 2007 and the statements of revenue, expenses and net assets and 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 financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

The Alberta Lawyers Insurance Association

Balance Sheet

As at June 30, 2007

	2007 \$	2006 \$
Assets		
Current assets		
Cash and cash equivalents	12,335,545	13,249,455
Accounts receivable	4,227,519	2,984,735
Accrued interest	449,173	461,042
Prepaid expenses	82,540	1,078,127
Due from (to) The Law Society of Alberta (note 6)	26,745	(1,317)
	<hr/>	<hr/>
	17,121,522	17,772,042
Investments – at cost (market value \$93,281,636; 2006 – \$84,985,432)	72,688,387	64,429,132
Capital assets (note 3)	<hr/>	<hr/>
	35,109	18,948
	<hr/>	<hr/>
	89,845,018	82,220,122
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	772,158	727,842
Deferred revenue	<hr/>	<hr/>
	10,411,498	12,043,246
	<hr/>	<hr/>
	11,183,656	12,771,088
Reserve for claims and related costs (note 4)	43,212,867	43,510,000
Net assets		
Unrestricted	35,448,475	25,939,014
Share capital (note 5)	<hr/>	<hr/>
	20	20
	<hr/>	<hr/>
	35,448,495	25,939,034
	<hr/>	<hr/>
	89,845,018	82,220,122
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Approved by the Board of Directors

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_____ Director

The Alberta Lawyers Insurance Association

Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2007

	2007	2006
	\$	\$
Revenue		
Annual levy	12,693,669	15,417,089
Investment income	10,964,911	8,484,221
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	23,658,580	23,901,310
	<hr/>	<hr/>
Expenses		
Provision for claims and related costs (note 4)	9,677,132	10,267,074
Premium paid to Canadian Lawyers Insurance Association	2,003,328	2,580,656
Salaries and employee benefits	1,167,548	1,061,876
Management fee (note 6)	835,583	782,452
Investment counsel fee	248,368	258,717
Administration	98,342	125,977
Consultant fees	87,166	51,339
Bad debt expense (recovery)	(36,748)	47,921
Loss prevention	12,450	46,540
Professional fees	43,783	17,420
Amortization	12,167	16,579
	<hr/>	<hr/>
	14,149,119	15,256,551
	<hr/>	<hr/>
Excess of revenue over expenses for the year	9,509,461	8,644,759
Unrestricted net assets – Beginning of year	25,939,014	17,294,255
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Unrestricted net assets – End of year	35,448,475	25,939,014
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The Alberta Lawyers Insurance Association

Statement of Cash Flows

For the year ended June 30, 2007

	2007 \$	2006 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	9,509,461	8,644,759
Items not affecting cash		
Amortization	12,167	16,579
Gain on sale of investments	(7,040,516)	(5,343,217)
Provision for claims and related costs (note 4)	9,677,132	10,267,074
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	12,158,244	13,585,195
Changes in non-cash working capital items	(1,850,822)	(1,770,944)
Claims and related costs paid – net of recoveries (note 4)	(9,974,265)	(11,833,074)
	<hr/>	<hr/>
	333,157	(18,823)
Investing and financing activities		
Proceeds on disposal of investments	44,807,257	10,470,090
Purchase of investments	(46,025,996)	(12,869,459)
Purchase of capital assets	(28,328)	(4,560)
Proceeds on issuance of share capital	-	20
	<hr/>	<hr/>
	(1,247,067)	(2,403,909)
Decrease in cash and cash equivalents	(913,910)	(2,422,732)
Cash and cash equivalents – Beginning of year	13,249,455	15,672,187
	<hr/>	<hr/>
Cash and cash equivalents – End of year	12,335,545	13,249,455
Cash and cash equivalents are comprised of		
Cash	5,978,027	3,774,595
Short-term investments	6,357,518	9,474,860
	<hr/>	<hr/>
	12,335,545	13,249,455
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The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2007

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 5). The Association administers a program under which members have mandatory coverage for errors and omissions of \$1,000,000 per occurrence, with an annual aggregate limit of \$2,000,000. 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.

2 Summary of significant accounting policies

Revenue recognition

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

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 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 collectibility 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 are insignificant risk of change in value.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2007

Investments

Long-term investments are recorded at cost and are written down to market value only if there is a permanent impairment in value. Cost is determined on a weighted average basis using the purchase date.

Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated on a straight-line basis at the following annual rates:

Furniture and equipment	20%
Computer	33 1/3%

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 changes in the future conditions would require a material change in the recognized amounts of certain items.

Comparative figures

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

3 Capital assets

	2007		2006	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	17,627	10,515	7,112	10,637
Computer	73,845	45,848	27,997	8,311
	91,472	56,363	35,109	18,948

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2007

4 Reserve for claims and related costs

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

Reserve for claims and related costs – Beginning of year	43,510,000	45,243,000
Claims paid and accrued	(9,540,418)	(11,643,394)
Related costs paid and accrued	(3,664,807)	(3,682,280)
Recoveries	3,230,960	3,492,600
	<hr/>	<hr/>
Increase due to claims experience	33,535,735	33,409,926
	9,677,132	10,100,074
	<hr/>	<hr/>
Reserve for claims and related costs – End of year	43,212,867	43,510,000

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, 2007 is 5% (2006 – 5.5%). The undiscounted reserve balance at June 30, 2007 is \$45,047,983.

5 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 of Alberta (“LSA”) and one common share issued to the person from time to time holding the office of Executive Director of The Law Society of Alberta, as bare trustee for The Law Society of Alberta.

6 Related party transactions

As described in note 5, the Association is a wholly owned subsidiary of LSA. During the year, the Association paid LSA an amount of \$835,583 (2006 – \$782,452) for management fees. The balance due from the LSA at June 30 of \$26,745 (2006 due to LSA – \$1,317) is non-interest bearing and due on demand.

7 Financial instruments

The Association’s financial instruments are cash and cash equivalents, accounts receivable, accrued interest, reinsurance recoverables, due from (to) The Law Society of Alberta, investments, accounts payable and accrued liabilities, and reserve for claims and related costs.

The fair market value of all financial instruments, except for investments and reserve for claims and related costs, approximate book value due to their short-term nature. The fair market value of investments has been disclosed on the balance sheet. The fair value of reserve for claims and related costs have not been determined due to difficulty in estimating their value.

The Alberta Lawyers Insurance Association

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Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 4.37%.

Included in investments are fixed income bonds in the amount of \$48,342,375. The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate range	Amount \$
Within two year	3.55% – 5.50%	7,511,875
Greater than two years but less than ten years	3.55% – 5.45%	32,756,300
Greater than ten years	5.65% – 6.50%	8,074,200
		<u>48,342,375</u>

It is the opinion of management that the Association is not subject to significant interest rate risk due to the nature of its investments.

Credit risk

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

8 Equity in Canadian Lawyers' Insurance Association

The Association is a subscriber to the Canadian Lawyers Insurance Association (C.L.I.A.), 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 C.L.I.A. with respect to risks assumed and the Association has an interest in surpluses in these reserves. C.L.I.A. prepares annual Subscriber Accounts, as at the end of C.L.I.A.'s fiscal year (December 31), which are approved by the C.L.I.A. Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscribers Accounts of C.L.I.A. as at December 31, 2006 show the Association's equity to be approximately \$5.6 million. The Association's equity is not reflected in these financial statements.

