

# **The Law Society of Alberta**

Financial Statements  
**October 31, 2005**

December 16, 2005

## **Auditors' Report**

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

We have audited the balance sheet of **The Law Society of Alberta** as at October 31, 2005 and the statements of revenue, expenses and fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society'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 Society as at October 31, 2005 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

## Balance Sheet

As at October 31, 2005

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2005 \$	2004 \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	3,952,828	494,979	82,349	4,530,156	4,649,307
Accounts receivable	268,265	5,641	-	273,906	144,824
Accrued interest	6,215	53,580	8,605	68,400	79,802
Prepaid expenses	131,285	-	-	131,285	128,591
Interfund balances	77,476	(62,488)	(14,988)	-	-
	4,436,069	491,712	75,966	5,003,747	5,002,524
<b>Investments</b> – at cost (market value \$8,419,192; 2004 – \$9,126,343)	-	5,153,807	779,037	5,932,844	6,718,522
<b>Reinsurance recoverables</b> (note 2)	-	2,933,000	-	2,933,000	1,722,000
<b>Trust assets</b> (note 3)	425,911	-	-	425,911	407,933
<b>Capital assets</b> (note 4)	1,707,174	-	-	1,707,174	765,416
	6,569,154	8,578,519	855,003	16,002,676	14,616,395
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	494,107	158,591	-	652,698	482,134
Due to The Alberta Lawyers Insurance Association	2,823	-	-	2,823	13,556
Deferred rent	-	-	-	-	19,480
	496,930	158,591	-	655,521	515,170
<b>Reserve for claims and related costs</b> (note 5)	-	6,268,000	-	6,268,000	4,659,000
<b>Pension Plan payable</b> (note 7)	325,164	(4,723)	-	320,441	416,647
<b>Trust liabilities</b> (note 3)	425,911	-	-	425,911	407,933
<b>Deferred lease inducement</b>	761,864	-	-	761,864	-
	2,009,869	6,421,868	-	8,431,737	5,998,750
<b>Fund balances</b>					
Invested in capital assets	1,707,174	-	-	1,707,174	765,416
Externally restricted funds (note 6)					
Contingency reserve	-	2,156,651	-	2,156,651	3,808,260
Scholarship reserve	-	-	855,003	855,003	770,103
Unrestricted funds	2,852,111	-	-	2,852,111	3,273,866
	4,559,285	2,156,651	855,003	7,570,939	8,617,645
	6,569,154	8,578,519	855,003	16,002,676	14,616,395
<b>Commitments</b> (note 8)					

Approved by the Benchers

 Bencher

 Bencher

# The Law Society of Alberta

## Statement of Revenue, Expenses and Fund Balances

For the year ended October 31, 2005

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2005 \$	2004 \$
<b>Revenue</b>					
Practice fees	8,348,578	1,976,235	-	10,324,813	9,879,151
Investment income	120,371	875,974	102,471	1,098,816	749,305
Management fee (note 9)	750,137	-	-	750,137	669,475
Enrolment and application fees	264,800	-	-	264,800	307,338
Other	63,776	-	-	63,776	76,454
Fines and penalties	47,360	-	-	47,360	41,864
	<u>9,595,022</u>	<u>2,852,209</u>	<u>102,471</u>	<u>12,549,702</u>	<u>11,723,587</u>
<b>Expenses</b>					
Corporate costs					
Premises operating costs	874,409	-	-	874,409	916,205
Amortization	590,035	-	-	590,035	472,522
General corporate costs (recoveries)	409,624	(10,325)	-	399,299	508,195
Computer operating costs	332,378	-	-	332,378	249,929
Outside services	234,691	40,448	2,571	277,710	295,944
Indemnity bond fees	-	231,460	-	231,460	223,258
Recovery costs	-	2,867	-	2,867	5,998
Departments, programs and committees					
Secretariat	975,209	-	-	975,209	1,088,239
Counsel	887,385	-	-	887,385	740,421
Member Audits	-	836,394	-	836,394	711,023
Complaints	806,870	-	-	806,870	721,679
Assurance and Custodianships	-	789,118	-	789,118	425,804
Membership	633,397	-	-	633,397	708,830
Administration and Human Resources	553,103	-	-	553,103	521,531
Information Technology	363,136	-	-	363,136	349,340
Accounting	346,454	-	-	346,454	336,142
Practice Advisor	340,563	-	-	340,563	304,628
Investigations	286,014	-	-	286,014	216,688
Communications	281,847	-	-	281,847	294,258
Central Records Office	259,698	-	-	259,698	185,595
Member Regulation Administration	254,920	-	-	254,920	233,901
Practice Review	183,862	-	-	183,862	189,908
Unauthorized Practice of Law	75,441	-	-	75,441	84,948
Grants and contributions	1,114,512	-	-	1,114,512	1,122,658
Provision for claims and related costs (note 5)	-	1,928,895	-	1,928,895	768,599
Scholarships	-	-	15,000	15,000	45,000
	<u>9,803,548</u>	<u>3,818,857</u>	<u>17,571</u>	<u>13,639,976</u>	<u>11,721,243</u>
Less recovered costs	32,534	11,034	-	43,568	64,942
	<u>9,771,014</u>	<u>3,807,823</u>	<u>17,571</u>	<u>13,596,408</u>	<u>11,656,301</u>
<b>(Deficiency) excess of revenue over expenses for the year</b>	(175,992)	(955,614)	84,900	(1,046,706)	67,286
<b>Fund balance – beginning of year</b>	4,039,282	3,808,260	770,103	8,617,645	8,550,359
<b>Interfund transfers</b>					
Management fee	695,995	(695,995)	-	-	-
<b>Fund balance – end of year</b>	<u>4,559,285</u>	<u>2,156,651</u>	<u>855,003</u>	<u>7,570,939</u>	<u>8,617,645</u>

# The Law Society of Alberta

## Statement of Cash Flows

For the year ended October 31, 2005

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2005 \$	2004 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
(Deficiency) excess of revenue over expenses for the year	(175,992)	(955,614)	84,900	(1,046,706)	67,286
Items not affecting cash					
Amortization	590,035	-	-	590,035	472,522
Gain on sale of investments	-	(560,781)	(67,891)	(628,672)	(295,712)
Provision for claims and related costs (note 5)	-	1,928,895	-	1,928,895	768,599
(Decrease) increase in Pension Plan payable	(79,149)	(17,056)	-	(96,205)	117,841
Decrease in deferred rent	-	-	-	-	(136,432)
Increase in lease inducement	761,864	-	-	761,864	-
	1,096,758	395,444	17,009	1,509,211	994,104
Change in non-cash working capital items	71,948	27,141	(79,110)	19,979	(157,241)
Claims and related costs paid – net of recoveries (note 5)	-	(1,530,895)	-	(1,530,895)	(47,599)
	1,168,706	(1,108,310)	(62,101)	(1,705)	789,264
<b>Investing activities</b>					
Proceeds on disposal of investments	-	3,514,310	381,721	3,896,031	2,092,672
Purchase of investments	-	(2,136,855)	(344,828)	(2,481,683)	(1,732,521)
Purchase of capital assets	(1,531,794)	-	-	(1,531,794)	(388,199)
	(1,531,794)	1,377,455	36,893	(117,446)	(28,048)
<b>(Decrease) increase in cash and cash equivalents</b>	(363,088)	269,145	(25,208)	(119,151)	761,216
<b>Cash and cash equivalents – beginning of the year</b>	3,619,921	921,829	107,557	4,649,307	3,888,091
Interfund transfers	695,995	(695,995)	-	-	-
<b>Cash and cash equivalents – end of the year</b>	3,952,828	494,979	82,349	4,530,156	4,649,307
<b>Cash and cash equivalents are comprised of</b>					
Cash	199,696	73,899	672	274,267	593,171
Treasury bills	3,753,132	421,080	81,677	4,255,889	4,056,136
	3,952,828	494,979	82,349	4,530,156	4,649,307

# The Law Society of Alberta

Notes to Financial Statements

October 31, 2005

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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 the independent legal profession.

## 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 those 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 Alberta.

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 Fund

The Viscount Bennett 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, medals and prizes for students-at-law, resident in Alberta.

### Revenue recognition

Members' fees set by the Benchers, which are billed in February, 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 they are due. Members' fees and the levy are included in the line item titled practice fees. Investment income earned on resources is recognized in the fund to which the resources are maintained.

# **The Law Society of Alberta**

Notes to Financial Statements

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## **Recoveries**

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

## **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 recoverables and reserve for claims and related costs. The reserve value is based on the greater of the Society's value and the Actuary's discounted value.

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

## **Reinsurance recoverables**

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 have been disclosed on a gross basis with an offsetting asset reflecting the reinsurance recoverables.

## **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 long-term investments and are recorded at cost and are written down to market value only if there is a permanent impairment in value.

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## 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%
Leasehold improvements	Over lease term

## Deferred lease inducement

The deferred lease inducement, representing the benefit of cash inducements, is amortized over the remaining term of the lease.

## Income taxes

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

## Donated services

A portion of the Society's work is dependent on the voluntary service of many members, particularly the significant contribution of the Benchers. These services are not normally purchased by the Society and due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.

## Use of estimates

Some items in the financial statements are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. 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 with the current year's presentation.

## 3 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed may be forwarded to the Society. In 2005, approximately \$66,400 (2004 – \$29,000) was received. The Society holds the funds in trust for a five year period and thereafter forwards any unclaimed funds to the Alberta Law Foundation. Amounts forwarded to the Alberta Law Foundation during 2005 were approximately \$48,400 (2004 – \$74,000).



# The Law Society of Alberta

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## 4 Capital assets

	2005		2004	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	370,650	187,766	182,884	93,132
Computer	1,731,855	1,095,768	636,087	602,608
Leasehold improvements	1,239,818	351,615	888,203	69,676
	<u>3,342,323</u>	<u>1,635,149</u>	<u>1,707,174</u>	<u>765,416</u>

## 5 Reserve for claims and related costs

The change in reinsurance recoverables is summarized as follows:

	2005 \$	2004 \$
Reinsurance recoverables – beginning of year	1,722,000	962,000
Increase due to claims experience	<u>1,211,000</u>	<u>760,000</u>
Reinsurance recoverables – end of year	<u>2,933,000</u>	<u>1,722,000</u>

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

	2005 \$	2004 \$
Reserve for claims and related costs – beginning of year	4,659,000	3,178,000
Claims paid	(1,255,526)	(95,104)
Related costs paid and accrued	(393,503)	(7,620)
Recoveries from members and third parties	<u>118,134</u>	<u>55,125</u>
	3,128,105	3,130,401
Increase due to claims experience	<u>3,139,895</u>	<u>1,528,599</u>
Reserve for claims and related costs – end of year	<u>6,268,000</u>	<u>4,659,000</u>

# The Law Society of Alberta

## Notes to Financial Statements

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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:

	2005 \$	2004 \$
Reserve for claims and related costs – beginning of year	4,659,000	3,178,000
Reinsurance recoverable – beginning of year	(1,722,000)	(962,000)
Net exposure – beginning of year	2,937,000	2,216,000
Claims paid	(1,255,526)	(95,104)
Related costs paid and accrued	(393,503)	(7,620)
Recoveries from members and third parties	118,134	55,125
	1,406,105	2,168,401
Provision for claims and related costs	1,928,895	768,599
Net exposure – end of year	3,335,000	2,937,000
Reserve for claims and related costs – end of year	6,268,000	4,659,000
Reinsurance recoverable – end of year	(2,933,000)	(1,722,000)
Net exposure – end of year	3,335,000	2,937,000

Claims which took place prior to March 10, 1986 and reported by March 10, 1987 are insured by bond, subject to a \$250,000 annual aggregate deductible, to the extent of \$15,000,000 for each occurrence. 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 annual aggregate with a \$1,000,000 annual aggregate deductible. Effective November 1, 2001, the Society purchased an indemnity bond of \$10,000,000 annual aggregate with a \$1,000,000 annual aggregate deductible.

Effective November 1, 1993, amended in 1999 and in 2002, the Benchers approved the implementation of a “cap” on the aggregate amounts of claims to be paid in any one fiscal year. The cap will be limited to \$11,000,000.

# The Law Society of Alberta

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## 6 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, expenses were in excess of revenue and therefore, \$1,651,609 (2004 – \$292,214) of the contingency reserve was utilized.

### Scholarship reserve

The Scholarship reserve is for scholarships, medals and prizes for students-at-law, resident in Alberta. In the current year revenues were in excess of expenses and therefore, \$84,900 was allocated to the Scholarship reserve (2004 – \$2,610 was utilized from Scholarship reserve as expenses were in excess of revenues).

## 7 Pension plan

The Society provides a non-contributory defined benefit pension plan to eligible management employees based on earnings and years of service. On advice of its actuary as of October 31, 2005, the details of the pension plan are as follows:

	2005 \$	2004 \$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – Beginning	2,553,819	2,341,633
Society contributions during period	195,928	100,869
Actual return on plan assets	313,425	231,864
Less benefits paid during period	(538,549)	(120,547)
	<hr/>	<hr/>
<b>Fair value of plan assets – Ending</b>	<b>2,524,623</b>	<b>2,553,819</b>
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning	2,716,767	2,772,429
Current service cost	107,422	101,564
Interest on accrued benefit obligation	150,072	174,065
Actuarial loss (gain) during period	378,686	(210,744)
Less benefits paid during period to retirees	(538,549)	(120,547)
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<b>Accrued benefit obligations – Ending</b>	<b>2,814,398</b>	<b>2,716,767</b>
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<b>Plan deficit</b>	<b>(289,775)</b>	<b>(162,948)</b>

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	2005 \$	2004 \$
<b>Pension cost</b>		
Current service cost	107,422	101,564
Interest cost on accrued benefit obligation	150,072	174,065
Expected return on plan assets	(178,688)	(174,065)
Amortization of transitional (asset) obligation	15,873	15,873
Amortization of net actuarial gains	-	(518)
	<hr/>	<hr/>
<b>Pension cost recognized during period</b>	<b>94,679</b>	<b>116,919</b>
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<b>Accrued benefit liability</b>		
Beginning balance – Accrued benefit	(41,660)	(25,610)
Plus contributions in the period	195,928	100,869
Less pension cost recognized during period	(94,679)	(116,919)
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<b>Ending balance – Accrued benefit asset (liability)</b>	<b>59,589</b>	<b>(41,660)</b>
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<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	(289,775)	(162,948)
Unamortized transitional obligation	84,125	99,998
Unamortized net actuarial loss	265,239	21,290
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<b>Accrued benefit asset (liability)</b>	<b>59,589</b>	<b>(41,660)</b>
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## 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.

Canadian equity	32.50%
Foreign equities	29.90%
Fixed income	29.50%
Cash and cash equivalents	8.10%
	<hr/>
	100%
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## Assumptions

The actuary used the following rates in its calculations:

	2005	2004
Discount rate – Beginning	6.00%	6.00%
Discount rate – Ending	5.35%	6.00%
Expected long rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.50%	3.50%

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## Supplemental Retirement Plan and top-up payment

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 ("CRA") maximum.

	2005 \$	2004 \$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning	366,687	286,107
Current service cost	6,683	6,491
Interest on accrued benefit obligation	21,647	17,507
Actuarial loss during period	66,926	79,500
Less benefits paid during period for retirees	(18,505)	(22,918)
<b>Accrued benefit obligation – Ending</b>	<u>443,438</u>	<u>366,687</u>
<b>Pension cost</b>		
Current service cost	6,683	6,491
Interest cost on accrued benefit obligation	21,647	17,507
Amortization of net actuarial losses	-	79,500
<b>Pension cost recognized during period</b>	<u>28,330</u>	<u>103,498</u>
<b>Accrued benefit liability</b>		
Beginning balance – accrued benefit liability	(366,687)	(286,107)
Plus contributions in the period	18,505	2,918
Less pension cost recognized during period	(28,330)	(103,498)
<b>Ending balance – Accrued benefit liability</b>	<u>(376,512)</u>	<u>(386,687)</u>
<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	(443,438)	(366,687)
Unamortized net actuarial loss	66,926	-
<b>Accrued benefit liability</b>	<u>(376,512)</u>	<u>(366,687)</u>

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## Top-up payment

The Society provided a one-time pension top-up to plan members as a result of a 1.1% shortfall due to CRA maximums, and was only provided until the SRP was implemented. This amount is held and accrues 4% interest annually until the member retires \$3,518 (2004 – \$8,296)

## 8 Commitments

The Society is committed to lease office space and equipment for various periods up to the year 2014. Future minimum lease payments are as follows:

	\$
2006	1,096,674
2007	1,029,211
2008	1,045,273
2009	1,038,697
2010 and thereafter	5,262,467

## 9 Related party transactions

The Society is related to The Alberta Lawyers Insurance Association (“ALIA”), as both organizations are controlled by the elected Benchers. The Society has received from ALIA an amount of \$750,137 (2004 – \$669,475) for management fees.

As at October 31, 2005, an amount of \$2,823 (2004 – \$13,556) was due to ALIA. 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 amount due to ALIA is non-interest bearing and due on demand.

## 10 Financial instruments

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

The fair market value of all instruments, excluding investments, reinsurance recoverables, reserve for claims and related costs and pension plan payable, 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 reinsurance recoverables and reserve for claims and related costs have not been determined due to the difficulty in estimating their value. The fair value of pension plan payables approximates book value.

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## Interest rate risk

The Society is exposed to interest rate risk on its investments.

Treasury bills have a maturity date within a year of the balance sheet date and bear an interest rate of 2.80% – 3.06%. Included in investments are fixed income bonds in the amount of \$3,536,506. The maturity dates and interest rates are as follows:

<b>Maturity date from balance sheet date</b>	<b>Interest rate range</b>	<b>Amount \$</b>
Within one year	3.00%	50,199
Greater than one year, but less than five years	3.55% – 11.75%	1,498,363
Greater than five years	4.50% – 9.00%	<u>1,987,944</u>
		<u>3,536,506</u>

## Credit risk

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

