

The Law Society of Alberta

Financial Statements
October 31, 2008

February 5, 2009

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, 2008 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, 2008 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, 2008

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2008 \$	2007 \$
Assets					
Current assets					
Cash and cash equivalents	4,542,052	905,618	59,068	5,506,738	8,388,220
Accounts receivable	393,588	435,023	-	828,611	415,196
Accrued interest	14,858	75,678	10,995	101,531	111,602
Prepaid expenses	169,268	-	-	169,268	187,703
Interfund balances	134,468	(135,036)	568	-	-
	5,254,234	1,281,283	70,631	6,606,148	9,102,721
Investments (note 3)	20	8,405,361	1,050,764	9,456,145	7,966,412
Reinsurance recoverables (notes 3 and 6)	-	2,691,161	-	2,691,161	6,530,806
Trust assets (note 4)	589,018	-	-	589,018	513,976
Capital assets (note 5)	1,641,114	-	-	1,641,114	1,331,433
	7,484,386	12,377,805	1,121,395	20,983,586	25,445,348
Liabilities					
Current liabilities					
Accounts payable	1,125,821	35,734	15,275	1,176,830	1,291,837
Due to The Alberta Lawyers Insurance Association (note 10)	8,959	-	-	8,959	361,956
	1,134,780	35,734	15,275	1,185,789	1,653,793
Reserve for claims and related costs (note 6)	-	5,451,644	-	5,451,644	9,823,624
Pension Plan payable (note 8)	448,400	-	-	448,400	400,112
Trust liabilities (note 4)	589,018	-	-	589,018	513,976
Deferred lease inducement	476,945	-	-	476,945	554,285
	2,649,143	5,487,378	15,275	8,151,796	12,945,790
Fund balances					
Invested in capital assets	1,641,114	-	-	1,641,114	1,331,433
Externally restricted funds (note 7)					
Contingency reserve	-	6,890,427	-	6,890,427	6,053,511
Scholarship reserve	-	-	1,106,120	1,106,120	1,261,727
Unrestricted funds	3,194,129	-	-	3,194,129	3,852,887
	4,835,243	6,890,427	1,106,120	12,831,790	12,499,558
	7,484,386	12,377,805	1,121,395	20,983,586	25,445,348
Commitments (note 9)					

Approved by the Benchers

Bencher

Bencher

The Law Society of Alberta

Statement of Revenue, Expenses and Fund Balances

For the year ended October 31, 2008

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2008 \$	2007 \$
Revenue					
Practice fees	10,086,444	5,447,722	-	15,534,166	14,677,924
Investment income	268,255	636,508	45,116	949,879	1,433,076
Unrealized loss on investments	-	(1,605,267)	(157,172)	(1,762,439)	(463,670)
Management fee (note 10)	931,100	-	-	931,100	871,570
Enrolment and application fees	365,250	-	-	365,250	405,960
Other	96,974	-	-	96,974	109,068
Fines and penalties	16,800	-	-	16,800	27,432
	11,764,823	4,478,963	(112,056)	16,131,730	17,061,360
Expenses					
Corporate costs					
Premises operating costs	1,090,682	-	-	1,090,682	1,095,921
General corporate costs	715,921	-	-	715,921	544,839
Amortization	637,917	-	-	637,917	568,679
Outside services	458,062	47,885	3,551	509,498	353,816
Computer operating costs	288,492	80	-	288,572	369,130
Indemnity bond fees	-	259,985	-	259,985	366,084
Departments, programs and committees					
Secretariat	1,247,919	-	-	1,247,919	1,181,151
Counsel	1,132,022	-	-	1,132,022	1,154,241
Member Audits	-	1,547,336	-	1,547,336	1,275,786
Complaints	1,177,548	-	-	1,177,548	941,690
Assurance and Custodianships	-	420,500	-	420,500	524,189
Membership	966,307	-	-	966,307	899,738
Administration and Human Resources	695,203	-	-	695,203	621,876
Information Technology	365,627	-	-	365,627	337,273
Accounting	426,373	-	-	426,373	357,574
Practice Advisor	466,634	-	-	466,634	457,930
Investigations	883,611	-	-	883,611	856,281
Communications	638,752	-	-	638,752	673,333
Privacy and Records Management	303,089	-	-	303,089	408,776
Member Regulation Administration	456,505	-	-	456,505	380,093
Practice Review	227,659	-	-	227,659	230,459
Grants and contributions	1,747,652	-	-	1,747,652	1,367,077
(Recovery) provision for claims and related costs (note 6)	-	(211,377)	-	(211,377)	518,451
Scholarships	-	-	40,000	40,000	40,000
	13,925,975	2,064,409	43,551	16,033,935	15,524,387
Less recovered costs	173,375	61,062	-	234,437	171,761
Interfund management fee	1,638,700	(1,638,700)	-	-	-
	12,113,900	3,642,047	43,551	15,799,498	15,352,626
Excess (deficiency) of revenue over expenses for the year	(349,077)	836,916	(155,607)	332,232	1,708,734
Fund balance – beginning of year	5,184,320	6,053,511	1,261,727	12,499,558	8,384,101
Transitional adjustment on adoption of new accounting policies	-	-	-	-	2,406,723
Fund balance – end of year	4,835,243	6,890,427	1,106,120	12,831,790	12,499,558

The Law Society of Alberta

Statement of Cash Flows

For the year ended October 31, 2008

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2008 \$	2007 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the year	(349,077)	836,916	(155,607)	332,232	1,708,734
Items not affecting cash					
Amortization	637,917	-	-	637,917	568,679
(Gain) loss on sale of investments	-	(325,585)	806	(324,779)	(698,810)
Unrealized loss on investments	-	1,605,267	157,172	1,762,439	463,670
Provision for claims and related costs (note 6)	-	(211,377)	-	(211,377)	518,451
Increase (decrease) in Pension Plan payable	52,093	(3,805)	-	48,288	67,676
Decrease in lease inducement	(77,340)	-	-	(77,340)	(124,467)
	263,593	1,901,416	2,371	2,167,380	2,503,933
Change in non-cash working capital items	(2,424,392)	1,556,851	14,627	(852,914)	115,990
Claims and related costs paid – net of recoveries (note 6)	-	(320,958)	-	(320,958)	(201,429)
	(2,160,799)	3,137,309	16,998	993,508	2,418,494
Investing and financing activities					
Proceeds on disposal of investments	-	2,488,132	14,855	2,502,987	3,164,528
Purchase of investments	-	(5,365,810)	(64,569)	(5,430,379)	(2,084,385)
Purchase of capital assets	(947,598)	-	-	(947,598)	(346,581)
	(947,598)	(2,877,678)	(49,714)	(3,874,990)	733,562
Increase (decrease) in cash and cash equivalents	(3,108,397)	259,631	(32,716)	(2,881,482)	3,152,056
Cash and cash equivalents – beginning of the year	7,650,449	645,987	91,784	8,388,220	5,236,164
Cash and cash equivalents – end of the year	4,542,052	905,618	59,068	5,506,738	8,388,220
Cash and cash equivalents are comprised of					
Cash	937,863	168,042	21,269	1,127,175	1,310,412
Treasury bills	3,604,189	737,576	37,799	4,379,564	7,077,808
	4,542,052	905,618	59,068	5,506,738	8,388,220

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Notes to Financial Statements

For the year ended October 31, 2008

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 Changes in accounting policies

Effective in future years

a) Financial Instruments – Disclosure and Presentation

The CICA has issued two new accounting standards 3862 *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*. These sections will replace Section 3861 *Financial Instruments – Disclosure and Presentation*, at the option of the Organization, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The effective date is for fiscal years beginning on October 1, 2008 and is currently under consideration by management. This new requirement is for disclosure only and will not impact the financial results of the Society.

b) Section 4400, Financial Statement Presentation by Not-For-Profit Organizations

Recent amendments to Section 4400, Financial Statement Presentation by Not-For-Profit Organizations will modify the requirements with respect to various elements of financial statement presentation. These amendments include preparation of the cash flow statement in accordance with handbook Section 1540.

The new standard applies to the financial statements relating to the fiscal years beginning on or after January 1, 2009, specifically November 1, 2009 for the Society. This standard will impact the Society's disclosures provided but will not affect the Society's results or financial position.

3 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.

The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2008

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 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, medals and prizes 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:

Category	Financial Instrument
Loans and receivables	Accounts receivable, accrued interest
Held-for-trading	Investments, Trust Assets
Financial liabilities	Accounts payable, Due to the Alberta Lawyers Insurance Association, Trust Liabilities

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 operations.

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.

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.

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Notes to Financial Statements

For the year ended October 31, 2008

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 has 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.

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 (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 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.

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Notes to Financial Statements

For the year ended October 31, 2008

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, 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.

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 2008, approximately \$212,000 (2007 – \$119,000) 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 for the 2008 fiscal year end were approximately \$45,000 (2007 – \$92,000).

5 Capital assets

	<u>2008</u>			<u>2007</u>
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Furniture and equipment	350,095	223,781	126,314	138,173
Computer	1,842,490	1,123,274	719,216	393,667
Leasehold improvements	1,288,952	493,368	795,584	799,593
	<u>3,481,537</u>	<u>1,840,423</u>	<u>1,641,114</u>	<u>1,331,433</u>

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Notes to Financial Statements

For the year ended October 31, 2008

6 Reserve for claims and related costs

The change in reinsurance recoverables is summarized as follows:

	2008 \$	2007 \$
Reinsurance recoverables – beginning of year	6,530,806	5,884,287
Increase (decrease) due to claims experience	(3,839,645)	646,519
Reinsurance recoverables – end of year	<u>2,691,161</u>	<u>6,530,806</u>

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

	2008 \$	2007 \$
Reserve for claims and related costs – beginning of year	9,823,624	8,860,083
Claims paid	(914,834)	(194,983)
Related costs paid and accrued	(20,814)	(11,096)
Recoveries from members and third parties	614,690	4,650
Increase (decrease) due to claims experience	<u>9,502,666</u> (4,051,022)	<u>8,658,654</u> 1,164,970
Reserve for claims and related costs – end of year	<u>5,451,644</u>	<u>9,823,624</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.

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For the year ended October 31, 2008

In summary, the net exposure is summarized as follows:

	2008 \$	2007 \$
Reserve for claims and related costs – beginning of year	9,823,624	8,860,083
Reinsurance recoverable – beginning of year	(6,530,806)	(5,884,287)
Net exposure – beginning of year	3,292,818	2,975,796
Claims paid	(914,834)	(194,983)
Related costs paid and accrued	(20,814)	(11,096)
Recoveries from members and third parties	614,690	4,650
	2,971,860	2,774,367
Provision for claims and related costs	(211,377)	518,451
Net exposure – end of year	2,760,483	3,292,818
Reserve for claims and related costs – end of year	5,451,644	9,823,624
Reinsurance recoverable – end of year	(2,691,161)	(6,530,806)
Net exposure – end of year	2,760,483	3,292,818

The discount rate applied by the actuary at October 31, 2008 is 3.7% (2007 – 4.50%). The undiscounted reserve balance at October 31, 2008 is \$5.1 million.

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, 2007, the Society purchased an indemnity bond of \$10,000,000 annual aggregate with a \$1,500,000 annual aggregate deductible.

7 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 of the Assurance Fund were in excess of expenses and management fees by \$836,912 (2007 – \$1,424,446) and this amount was therefore added to the contingency reserve.

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Notes to Financial Statements

For the year ended October 31, 2008

Scholarship reserve

In the current year, expenses were in excess of revenues by \$155,606 and this amount was therefore drawn from the reserve (2007 – \$29,073 added to the reserve).

8 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, 2008, the details of the pension plan are as follows:

	2008 \$	2007 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – Beginning of year	2,338,957	2,809,453
Society contributions during year	84,690	91,523
Actual return on plan assets	(325,589)	189,900
Less benefits paid during year	(141,318)	(751,919)
	<hr/>	<hr/>
Fair value of plan assets – Ending of year	1,956,740	2,338,957
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – Beginning of year	2,403,111	2,873,881
Current service cost	117,929	142,396
Interest on accrued benefit obligation	131,528	137,448
Actuarial loss (gain) during year	(77,716)	1,305
Less benefits paid during year to retirees	(141,318)	(751,919)
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Accrued benefit obligations – Ending of year	2,433,534	2,403,111
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Plan deficit	(476,794)	(64,154)

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Notes to Financial Statements

For the year ended October 31, 2008

	2008	2007
	\$	\$
Pension cost		
Current service cost	117,929	142,396
Interest cost on accrued benefit obligation	131,528	137,448
Expected return on plan assets	(150,192)	(161,152)
Amortization of transitional obligation	15,873	15,873
	<hr/>	<hr/>
Pension cost recognized during year	115,138	134,565
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Accrued benefit asset		
Beginning balance – Accrued benefit asset	23,718	66,760
Plus contributions in the year	84,690	91,523
Less pension cost recognized during year	(115,138)	(134,565)
	<hr/>	<hr/>
Ending balance – Accrued benefit asset (liability)	(6,730)	23,718
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Reconciliation of accrued benefit asset (liability)		
Funded status (plan deficit)	(476,794)	(64,154)
Unamortized transitional obligation	36,506	52,379
Unamortized net actuarial loss	433,558	35,493
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Accrued benefit asset (liability)	(6,730)	23,718
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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.

Fixed income	35%
Foreign equities	39%
Canadian equity	23%
Cash and cash equivalents	3%
	<hr/>
	100%
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Assumptions

The actuary used the following rates in its calculations:

	2008	2007
Discount rate – Beginning	5.50%	5.35%
Discount rate – Ending	6.25%	5.50%
Expected long rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%

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Notes to Financial Statements

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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.

	2008	2007
	\$	\$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – Beginning	474,010	477,027
Current service cost	18,818	18,681
Interest on accrued benefit obligation	25,933	25,392
Actuarial loss during year	(743)	(23,569)
Less benefits paid during year for retirees	(23,827)	(23,521)
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Accrued benefit obligation – Ending	494,191	474,010
Pension cost		
Current service cost	18,818	18,681
Interest cost on accrued benefit obligation	25,933	25,392
Amortization of net actuarial losses	722	3,938
	<hr/>	<hr/>
Pension cost recognized during year	45,473	48,011
Accrued benefit liability		
Beginning balance – accrued benefit liability	(420,025)	(395,535)
Plus contributions in the year	23,827	23,521
Less pension cost recognized during year	(45,472)	(48,011)
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Ending balance – Accrued benefit liability	(441,670)	(420,025)
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(494,191)	(474,009)
Unamortized net actuarial loss	52,521	53,984
	<hr/>	<hr/>
Accrued benefit liability	(441,670)	(420,025)

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Notes to Financial Statements

For the year ended October 31, 2008

Top-up payment

In a prior year, the Society provided a one-time pension top-up to plan members 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. The balance remaining pertaining to the top-up at October 31, 2008 was \$nil (2007 – \$3,805).

	2008 \$	2007 \$
Pension plan payable		
Pension accrued benefit asset (liability)	(6,730)	23,718
Supplemental plan benefit (liability)	(441,670)	(420,025)
Top-up payment	-	(3,805)
	<u>(448,400)</u>	<u>(400,112)</u>

9 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:

	\$
2009	1,189,748
2010	1,289,472
2011	1,110,467
2012	1,034,273
2013 and thereafter	2,260,157

10 Related party transactions

The Alberta Lawyers Insurance Association (“ALIA”) was incorporated on June 6, 1988 under Part 9 of the Companies Act of Alberta, chapter C-21, RSA 2000. On January 30, 2006, ALIA, 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 Society and one common share issued to the person from time to time holding the office of Executive Director of the Society, as bare trustee for the Society. ALIA is now a wholly owned subsidiary of the Society.

ALIA 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. ALIA has contracted with the Canadian Lawyers Insurance Association (“CLIA”) for group coverage subject to premiums and other assessments that may arise from the agreement with CLIA. ALIA meets the qualifications of a non-profit organization as defined by the Income Tax Act and such is exempt from taxes.

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For the year ended October 31, 2008

The Society does not consolidate, in its financial statements, the results of ALIA. A summary of ALIA's financial information at the year ended June 30, 2008 is as follows:

	\$
Assets	106,421,663
Liabilities	55,851,048
Net assets	50,570,615
Revenue	13,292,021
Expenses	<u>18,763,149</u>
Excess of revenue over expenses	<u>(5,471,128)</u>
Cash flows from Operating Activities	(1,019,165)
Cash flows from Investing and Financing Activities	<u>1,097,310</u>
Decrease in cash and cash equivalents	<u>78,145</u>

During the year ended October 31, 2008, the Society received from ALIA an amount of \$931,100 (2007 – \$871,570) for management fees. As at October 31, 2008, an amount of \$8,959 (2007 – \$361,956) was due to ALIA 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.

11 Financial instruments

The Society's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, investments, reinsurance recoverables, accounts payable, due to 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 Society records its investments at market value. The fair value of reinsurance recoverables and reserve for claims and related costs has not been determined due to the difficulty in estimating their value. The fair value of pension plan payables approximates book value.

The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2008

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 0.38% – 1.99%. Included in investments are fixed income bonds in the amount of \$5,222,973. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	Interest rate Range	Market value \$
Greater than one year, but less than five years	3.75% - 5.335%	1,325,213
Greater than five years	4% - 5.75%	3,897,760
		<hr/>
		5,222,973

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.

12 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.

