

# **The Law Society of Alberta**

Financial Statements  
**October 31, 2009**

February 5, 2010

## 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, 2009 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, 2009 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, 2009

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2009 \$	2008 \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	1,688,897	857,006	87,302	2,633,205	5,506,738
Accounts receivable	249,625	127,219	-	376,844	828,611
Accrued interest	12,373	89,736	9,675	111,784	101,531
Prepaid expenses	262,191	-	-	262,191	169,268
Interfund balances	29,752	(29,752)	-	-	-
	2,242,838	1,044,209	96,977	3,384,024	6,606,148
<b>Investments</b> (note 4)	1,084,738	11,221,614	1,094,077	13,400,429	9,456,145
<b>Reinsurance recoverables</b> (notes 3 and 7)	-	3,697,691	-	3,697,691	2,691,161
<b>Trust assets</b> (note 5)	711,115	-	-	711,115	589,018
<b>Capital assets</b> (note 6)	1,625,700	-	-	1,625,700	1,641,114
	5,664,391	15,963,514	1,191,054	22,818,959	20,983,586
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	799,737	205,156	764	1,005,657	1,176,830
Due to The Alberta Lawyers Insurance Association (note 11)	92,335	-	-	92,335	8,959
	892,072	205,156	764	1,097,992	1,185,789
<b>Reserve for claims and related costs</b> (note 7)	-	7,883,178	-	7,883,178	5,451,644
<b>Pension Plan payable</b> (note 9)	567,914	-	-	567,914	448,400
<b>Trust liabilities</b> (note 5)	711,115	-	-	711,115	589,018
<b>Deferred lease inducement</b>	399,596	-	-	399,596	476,945
	2,570,697	8,088,334	764	10,659,795	8,151,796
<b>Fund balances</b>					
Invested in capital assets	1,625,700	-	-	1,625,700	1,641,114
Externally restricted funds (note 8)					
Contingency reserve	-	7,875,180	-	7,875,180	6,890,427
Scholarship reserve	-	-	1,190,290	1,190,290	1,106,120
Unrestricted funds	1,467,994	-	-	1,467,994	3,194,129
	3,093,694	7,875,180	1,190,290	12,159,164	12,831,790
	5,664,391	15,963,514	1,191,054	22,818,959	20,983,586
<b>Commitments</b> (note 10)					

Approved by the Benchers

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Bencher

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Bencher

# The Law Society of Alberta

## Statement of Revenue, Expenses and Fund Balances

For the year ended October 31, 2009

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2009 \$	2008 \$
<b>Revenue</b>					
Practice fees	11,470,047	5,561,148	-	17,031,195	15,534,166
Investment income	40,356	740,481	79,546	860,383	949,879
Management fee (note 11)	1,016,100	-	-	1,016,100	931,100
Enrolment and application fees	342,830	-	-	342,830	365,250
Other	77,312	-	-	77,312	96,974
Fines and penalties	60,780	-	-	60,780	16,800
	<u>13,007,425</u>	<u>6,301,629</u>	<u>79,546</u>	<u>19,388,600</u>	<u>17,894,169</u>
<b>Expenses</b>					
Corporate costs					
Premises operating costs	1,132,894	-	-	1,132,894	1,090,682
General corporate costs	887,262	-	-	887,262	715,921
Amortization	645,661	-	-	645,661	637,917
Outside services	348,756	50,774	3,383	402,913	509,498
Computer operating costs	400,864	-	-	400,864	288,572
Indemnity bond fees	-	259,985	-	259,985	259,985
Departments, programs and committees					
Secretariat	1,386,832	-	-	1,386,832	1,247,919
Counsel	1,453,716	-	-	1,453,716	1,132,022
Member Audits	-	1,835,660	-	1,835,660	1,547,336
Complaints	1,317,815	-	-	1,317,815	1,177,548
Assurance and Custodianships	-	736,486	-	736,486	420,500
Membership	945,693	-	-	945,693	966,307
Administration and Human Resources	959,447	-	-	959,447	695,203
Information Technology	439,854	-	-	439,854	365,627
Accounting	456,607	-	-	456,607	426,373
Practice Advisor	548,106	-	-	548,106	466,634
Investigations	1,242,487	-	-	1,242,487	883,611
Communications	494,680	-	-	494,680	638,752
Privacy and Records Management	324,788	-	-	324,788	303,089
Member Regulation Administration	495,760	-	-	495,760	456,505
Practice Review	250,496	-	-	250,496	227,659
Grants and contributions	2,024,318	-	-	2,024,318	1,747,652
Provision (recovery) for claims & related costs (note 7)	-	1,525,655	-	1,525,655	(211,377)
Scholarships	-	-	40,000	40,000	40,000
	<u>15,756,036</u>	<u>4,408,560</u>	<u>43,383</u>	<u>20,207,979</u>	<u>16,033,935</u>
Excess (deficiency) of revenue over expenses for the year before other items	(2,748,611)	1,893,069	36,163	(819,379)	1,860,234
Other items:					
Unrealized gain (loss) on investments	(533)	763,895	48,007	811,369	(1,762,439)
Ex gratia payment	(925,000)	-	-	(925,000)	-
Recovered costs	204,595	55,789	-	260,384	234,437
Interfund management fees	1,728,000	(1,728,000)	-	-	-
	<u>1,007,062</u>	<u>(908,316)</u>	<u>48,007</u>	<u>146,753</u>	<u>(1,528,002)</u>
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>(1,741,549)</b>	<b>984,753</b>	<b>84,170</b>	<b>(672,626)</b>	<b>332,232</b>
<b>Fund balance – beginning of year</b>	<b>4,835,243</b>	<b>6,890,427</b>	<b>1,106,120</b>	<b>12,831,790</b>	<b>12,499,558</b>
<b>Fund balance – end of year</b>	<b>3,093,694</b>	<b>7,875,180</b>	<b>1,190,290</b>	<b>12,159,164</b>	<b>12,831,790</b>

# The Law Society of Alberta

## Statement of Cash Flows

For the year ended October 31, 2009

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2009 \$	2008 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Excess (deficiency) of revenue over expenses for the year	(1,741,549)	984,753	84,170	(672,626)	332,232
Items not affecting cash					
Amortization	645,661	-	-	645,661	637,917
(Gain) loss on sale of investments	14	(338,728)	(33,073)	(371,787)	(324,779)
Unrealized loss (gain) on investments	533	(763,895)	(48,007)	(811,369)	1,762,439
Provision for claims & related costs (note 7)	-	1,525,655	-	1,525,655	(211,377)
Increase (decrease) in Pension Plan payable	119,514	-	-	119,514	48,288
Decrease in lease inducement	(77,349)	-	-	(77,349)	(77,340)
	(1,053,176)	1,407,785	3,090	357,699	2,167,380
Change in non-cash working capital items	(84,467)	357,885	(12,623)	260,795	(852,914)
Claims and related costs paid – net of recoveries (note 7)	-	(100,651)	-	(100,651)	(320,958)
	(1,137,643)	1,665,019	(9,533)	517,843	993,508
<b>Investing and financing activities</b>					
Proceeds on disposal of investments	10,499	3,401,674	139,702	3,551,875	2,502,987
Purchase of investments	(1,095,765)	(5,115,305)	(101,935)	(6,313,005)	(5,430,379)
Purchase of capital assets	(630,246)	-	-	(630,246)	(947,598)
	(1,715,512)	(1,713,631)	37,767	(3,391,376)	(3,874,990)
<b>Increase (decrease) in cash and cash equivalents</b>	(2,853,155)	(48,612)	28,234	(2,873,533)	(2,881,482)
<b>Cash and cash equivalents – beginning of the year</b>	4,542,052	905,618	59,068	5,506,738	8,388,220
<b>Cash and cash equivalents – end of the year</b>	1,688,897	857,006	87,302	2,633,205	5,506,738
<b>Cash and cash equivalents comprised of:</b>					
Cash	80,554	182,318	13,340	276,212	1,127,174
Treasury bills	1,608,343	674,688	73,962	2,356,993	4,379,564
	1,688,897	857,006	87,302	2,633,205	5,506,738
Interest received	42,855	240,411	30,970	314,236	574,791

# The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2009

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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.

## 2 Changes in accounting policies

### Effective in future years

#### a) Financial Instruments – Disclosure and Presentation

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

#### 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.

#### c) The future for accounting standards for not-for-profit organizations (NPO)

In 2008, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards (“IFRS”) effective in 2011. NPOs have been excluded from the definition of publicly accountable entities and, therefore, are not required to adopt IFRS. The Canadian Accounting Standards Board has tentatively decided to issue an Exposure Draft in early 2010 to outline options available to NPOs. The Society continues to monitor developments in this area and will consider the impact to the financial reporting and disclosures of the Society as announcements and decisions are made by the standard setters.

# The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2009

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## 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.

#### 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 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:

<b>Category</b>	<b>Financial Instrument</b>
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.

# **The Law Society of Alberta**

Notes to Financial Statements

**For the year ended October 31, 2009**

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## **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 to 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.

## **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 made 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.



# The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2009

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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 (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.

## 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.

## 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

# The Law Society of Alberta

## Notes to Financial Statements

For the year ended October 31, 2009

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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.

## 4 Investments

The Society's investments are managed on a pooled basis under contract with Mawer Investment Management Ltd. The Society'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 Society's investments consist of treasury bills, bonds and equity investments.

Investments at October 31 are as follows:

	2009 \$	2008 \$
<b>Bonds</b>		
Corporate	3,122,389	1,761,616
Municipal	371,238	1,492,908
Provincial government	2,067,491	271,554
Federal government	2,644,602	1,696,894
	<hr/> 8,205,720	<hr/> 5,222,972
<b>Equities</b>		
Quoted Canadian	2,112,616	1,819,896
Quoted United States	1,976,189	1,174,075
Quoted International	1,105,904	1,239,202
	<hr/> 5,194,709	<hr/> 4,233,173
	<hr/> 13,400,429	<hr/> 9,456,145

## 5 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed may be forwarded to the Society. In 2009, approximately \$195,000 (2008 – \$212,000) 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 2009 fiscal year end were approximately \$72,000 (2008 – \$45,000).

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Notes to Financial Statements

For the year ended October 31, 2009

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## 6 Capital assets

	2009		2008	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	379,521	260,767	118,754	126,314
Computer	1,489,526	637,190	852,336	719,216
Leasehold improvements	1,317,448	662,838	654,610	795,584
	<u>3,186,495</u>	<u>1,560,795</u>	<u>1,625,700</u>	<u>1,641,114</u>

## 7 Reserve for claims and related costs

The change in reinsurance recoverables is summarized as follows:

	2009 \$	2008 \$
Reinsurance recoverables – beginning of year	2,691,161	6,530,806
Increase (decrease) due to claims experience	<u>1,006,530</u>	<u>(3,839,645)</u>
Reinsurance recoverables – end of year	<u>3,697,691</u>	<u>2,691,161</u>

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

	2009 \$	2008 \$
Reserve for claims and related costs – beginning of year	5,451,644	9,823,624
Claims paid	(145,094)	(914,834)
Related costs paid and accrued	(28,457)	(20,814)
Recoveries from members and third parties	<u>72,900</u>	<u>614,690</u>
Increase (decrease) due to claims experience	<u>5,350,993</u>	<u>9,502,666</u>
Reserve for claims and related costs – end of year	<u>2,532,185</u>	<u>(4,051,022)</u>
	<u>7,883,178</u>	<u>5,451,644</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 Law Society of Alberta

## Notes to Financial Statements

For the year ended October 31, 2009

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In summary, the net exposure is summarized as follows:

	2009 \$	2008 \$
Reserve for claims and related costs – beginning of year	5,451,644	9,823,624
Reinsurance recoverable – beginning of year	(2,691,161)	(6,530,806)
Net exposure – beginning of year	2,760,483	3,292,818
Claims paid	(145,094)	(914,834)
Related costs paid and accrued	(28,457)	(20,814)
Recoveries from members and third parties	72,900	614,690
	2,659,832	2,971,860
Provision for claims and related costs	1,525,655	(211,377)
Net exposure – end of year	4,185,487	2,760,483
Reserve for claims and related costs – end of year	7,883,178	5,451,644
Reinsurance recoverable – end of year	(3,697,691)	(2,691,161)
Net exposure – end of year	4,185,487	2,760,483

The discount rate applied by the actuary at October 31, 2009 is 3.3% (2008 – 3.7%). The undiscounted reserve balance at October 31, 2009 is \$7.0 million (2008 – \$5.1 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.

## 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, revenues of the Assurance Fund were in excess of expenses and management fees by \$984,753 (2008 – \$836,912) and this amount was therefore added to the contingency reserve.

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## Notes to Financial Statements

For the year ended October 31, 2009

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### Scholarship reserve

In the current year, revenues were in excess of expenses by \$84,170 and this amount was therefore added to the reserve (2008 – \$155,606 drawn from the reserve).

## 9 Pension plan

### a) Pension plan payable

	<b>2009</b>	<b>2008</b>
	\$	\$
Pension accrued benefit (liability)	(97,759)	(6,730)
Supplemental plan (liability)	(470,155)	(441,670)
	<u>(567,914)</u>	<u>(448,400)</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 its actuary as of October 31, 2009, the details of the pension plan are as follows:

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – Beginning of year	1,956,740	2,338,957
Society contributions during year	88,118	84,690
Actual return on plan assets	232,095	(325,589)
Less benefits paid during year	(144,342)	(141,318)
	<u>2,132,611</u>	<u>1,956,740</u>
<b>Fair value of plan assets – Ending of year</b>		
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning of year	2,437,534	2,403,111
Current service cost	114,061	117,929
Interest on accrued benefit obligation	151,150	131,528
Actuarial loss (gain) during year	246,072	(77,716)
Less benefits paid during year to retirees	(144,342)	(141,318)
	<u>2,804,475</u>	<u>2,433,534</u>
<b>Accrued benefit obligations – Ending of year</b>		
<b>Plan deficit</b>	<u>(671,864)</u>	<u>(476,794)</u>

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Notes to Financial Statements

For the year ended October 31, 2009

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	2009 \$	2008 \$
<b>Pension cost</b>		
Current service cost	114,061	117,929
Interest cost on accrued benefit obligation	151,150	131,528
Expected return on plan assets	(125,361)	(150,192)
Amortization of transitional obligation	15,873	15,873
Amortization of net actuarial losses	23,424	-
	<hr/>	<hr/>
<b>Pension cost recognized during year</b>	<b>179,147</b>	<b>115,138</b>
	<hr/>	<hr/>
<b>Accrued benefit asset</b>		
Beginning balance – Accrued benefit asset (liability)	(6,730)	23,718
Plus contributions in the year	88,118	84,690
Less pension cost recognized during year	(179,147)	(115,138)
	<hr/>	<hr/>
<b>Ending balance – Accrued benefit asset (liability)</b>	<b>(97,759)</b>	<b>(6,730)</b>
	<hr/>	<hr/>
<b>Reconciliation of accrued benefit asset (liability)</b>		
Funded status (plan deficit)	(671,864)	(476,794)
Unamortized transitional obligation	20,603	36,506
Unamortized net actuarial loss	553,502	433,558
	<hr/>	<hr/>
<b>Accrued benefit asset (liability)</b>	<b>(97,759)</b>	<b>(6,730)</b>
	<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	36%
Foreign equities	39%
Canadian equity	23%
Cash and cash equivalents	2%
	<hr/>
	100%
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## Assumptions

The actuary used the following rates in its calculations:

	2009	2008
Discount rate – Beginning	6.25%	5.50%
Discount rate – Ending	5.50%	6.25%
Expected long 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 Financial Statements

For the year ended October 31, 2009

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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.

	2009 \$	2008 \$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – Beginning	494,191	474,010
Current service cost	21,590	18,818
Interest on accrued benefit obligation	30,802	25,933
Actuarial loss during year	30,249	(743)
Less benefits paid during year for retirees	(24,292)	(23,827)
	<hr/>	<hr/>
<b>Accrued benefit obligation – Ending</b>	<b>552,540</b>	<b>494,191</b>
<b>Pension cost</b>		
Current service cost	21,590	18,818
Interest cost on accrued benefit obligation	30,802	25,933
Amortization of net actuarial losses	385	722
	<hr/>	<hr/>
<b>Pension cost recognized during year</b>	<b>52,777</b>	<b>45,473</b>
<b>Accrued benefit liability</b>		
Beginning balance – accrued benefit liability	(441,670)	(420,025)
Plus contributions in the year	24,292	23,827
Less pension cost recognized during year	(52,777)	(45,472)
	<hr/>	<hr/>
<b>Ending balance – Accrued benefit liability</b>	<b>(470,155)</b>	<b>(441,670)</b>
<b>Reconciliation of accrued benefit liability</b>		
Funded status (plan deficit)	(552,539)	(494,191)
Unamortized net actuarial loss	82,384	52,521
	<hr/>	<hr/>
<b>Accrued benefit liability</b>	<b>(470,155)</b>	<b>(441,670)</b>

# The Law Society of Alberta

Notes to Financial Statements

For the year ended October 31, 2009

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## 10 Commitments

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

	\$
2010	1,316,658
2011	1,144,347
2012	1,067,614
2013	1,082,389
2014 and thereafter	1,223,881

## 11 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 a limit of \$2,000,000. ALIA is a member of Canadian Lawyers Insurance Association (CLIA) reciprocal insurance exchange which provides 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, as such, is exempt from taxes.

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, 2009 is as follows:

	\$
Assets	99,256,783
Liabilities	<u>(62,048,810)</u>
Net assets	<u>37,207,973</u>
Revenue	15,122,098
Expenses	<u>(20,692,563)</u>
<b>Deficiency of revenue over expenses before the following:</b>	(5,570,465)
Unrealized loss on fair market value of investments	(8,527,923)
Premium credit	<u>735,746</u>
	<u>(13,362,642)</u>



# The Law Society of Alberta

## Notes to Financial Statements

For the year ended October 31, 2009

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	\$
Cash flows from Operating Activities	(1,334,176)
Cash flows from Investing and Financing Activities	<u>1,520,721</u>
<b>Increase in cash and cash equivalents</b>	<b><u>186,545</u></b>

During the year ended October 31, 2009, the Society received from ALIA an amount of \$1,016,100 (2008 – \$931,100) for management fees. As at October 31, 2009, an amount of \$92,335 (2008 – \$8,959) 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.

## 12 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.

### 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. Agreed investment parameters are in place with the external investment manager to mitigate interest rate risk.

# The Law Society of Alberta

## Notes to Financial Statements

For the year ended October 31, 2009

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Treasury bills have a maturity date within a year of the balance sheet date and bear an interest rate of 0.20% – 0.22%. Included in investments are fixed income bonds in the amount of \$8,205,698. The maturity dates and interest rates are as follows:

<b>Maturity date from balance sheet date</b>	<b>Interest rate Range</b>	<b>Market value \$</b>
Greater than one year, but less than five years	2.20% - 5.25%	2,133,685
Greater than five years	4% - 6.15%	6,072,013
		<hr/>
		8,205,698

### **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.

### **Currency risk**

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

### **Liquidity risk**

The Society 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 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.

