

The Law Society of Alberta

Financial Statements
October 31, 2010

February 4, 2011

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, 2010 and the statements of revenue, expenses and fund balances and cash flows for the 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, 2010 and the results of its operations and its cash flows for the 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, 2010

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2010 \$	2009 \$
Assets					
Current assets					
Cash and cash equivalents	2,249,139	982,934	109,400	3,341,473	2,633,205
Accounts receivable	217,771	110,758	41	328,570	376,844
Accrued interest	12,871	59,987	8,130	80,988	111,784
Prepaid expenses	240,146	-	-	240,146	262,191
Interfund balances	27,265	(27,265)	-	-	-
	2,747,192	1,126,414	117,571	3,991,177	3,384,024
Investments (note 4)	1,219,754	12,049,655	1,121,533	14,390,942	13,400,429
Reinsurance recoverables (note 7)	-	5,214,130	-	5,214,130	3,697,691
Trust assets (note 5)	840,672	-	-	840,672	711,115
Capital assets (note 6)	1,333,354	-	-	1,333,354	1,625,700
	6,140,972	18,390,199	1,239,104	25,770,275	22,818,959
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	635,098	142,170	805	778,073	1,005,657
Due to The Alberta Lawyers Insurance Association (note 11)	4,228	-	-	4,228	92,335
	639,326	142,170	805	782,301	1,097,992
Reserve for claims and related costs (note 7)	-	10,906,862	-	10,906,862	7,883,178
Pension plan payable (note 9)	654,231	-	-	654,231	567,914
Trust liabilities (note 5)	840,672	-	-	840,672	711,115
Deferred lease inducement	322,256	-	-	322,256	399,596
	2,456,485	11,049,032	805	13,506,322	10,659,795
Fund balances					
Invested in capital assets	1,333,354	-	-	1,333,354	1,625,700
Externally restricted funds (note 8)					
Contingency reserve	-	7,341,167	-	7,341,167	7,875,180
Scholarship reserve	-	-	1,238,299	1,238,299	1,190,290
Unrestricted funds	2,351,133	-	-	2,351,133	1,467,994
	3,684,487	7,341,167	1,238,299	12,263,953	12,159,164
	6,140,972	18,390,199	1,239,104	25,770,275	22,818,959
Commitments (note 10)					

Approved by the Benchers

Bencher

Bencher

The Law Society of Alberta
Statement of Revenue, Expenses and Fund Balances
For the year ended October 31, 2010

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2010 \$	2009 \$
Revenue					
Practice fees	13,408,479	4,853,600		18,262,079	17,031,195
Investment income	62,573	815,054	74,097	951,724	860,383
Management fee (note 11)	1,175,604	-	-	1,175,604	1,016,100
Enrolment and application fees	335,805	-	-	335,805	342,830
Other	52,777	-	-	52,777	77,312
Fines and penalties	36,000	-	-	36,000	60,780
	<u>15,071,238</u>	<u>5,668,654</u>	<u>74,097</u>	<u>20,813,989</u>	<u>19,388,600</u>
Expenses					
Corporate costs					
Premises operating costs	997,991	-	-	997,991	1,012,511
General corporate costs	33,153	18,996	-	52,149	217,408
Amortization	746,257	-	-	746,257	645,661
Outside services	129,631	61,306	3,722	194,659	210,110
Indemnity bond fees	-	259,985	-	259,985	259,985
Departments, programs and committees					
Secretariat	1,243,980	-	-	1,243,980	1,391,274
Counsel	1,265,945	-	-	1,265,945	1,453,716
Member Audits	-	2,329,752	-	2,329,752	1,835,660
Complaints	1,392,802	-	-	1,392,802	1,317,815
Assurance and Custodianships	-	473,230	-	473,230	736,486
Membership	1,114,492	-	-	1,114,492	945,693
Administration	1,305,495	-	-	1,305,495	1,258,362
Human Resources	513,332	-	-	513,332	514,426
Information Technology	1,202,233	-	-	1,202,233	994,153
Accounting	502,787	-	-	502,787	456,607
Practice Advisor	546,783	-	-	546,783	548,106
Investigations	913,207	-	-	913,207	1,242,487
Communications	474,296	-	-	474,296	506,502
Privacy and Records Management	357,775	-	-	357,775	324,788
Member Regulation Administration	628,281	-	-	628,281	495,760
Practice Review	279,056	-	-	279,056	250,496
Policy and Research	737,602	-	-	737,602	-
Grants and contributions	2,130,552	-	-	2,130,552	2,024,318
Provision for claims & related costs (note 7)	-	1,552,385	-	1,552,385	1,525,655
Scholarships	-	-	45,000	45,000	40,000
	<u>16,515,650</u>	<u>4,695,654</u>	<u>48,722</u>	<u>21,260,026</u>	<u>20,207,979</u>
Excess (deficiency) of revenue over expenses for the year before other items	(1,444,412)	973,000	25,375	(446,037)	(819,379)
Other items:					
Unrealized gain on investments	41,895	344,000	22,634	408,529	811,369
Ex gratia payment	-	-	-	-	(925,000)
Recovered costs	105,206	37,091	-	142,297	260,384
Interfund management fees	1,888,104	(1,888,104)	-	-	-
Excess (deficiency) of revenue over expenses for the year	<u>590,793</u>	<u>(534,013)</u>	<u>48,009</u>	<u>104,789</u>	<u>(672,626)</u>
Fund balance – beginning of year	<u>3,093,694</u>	<u>7,875,180</u>	<u>1,190,290</u>	<u>12,159,164</u>	<u>12,831,790</u>
Fund balance – end of year	<u>3,684,487</u>	<u>7,341,167</u>	<u>1,238,299</u>	<u>12,263,953</u>	<u>12,159,164</u>

The Law Society of Alberta

Statement of Cash Flows

For the year ended October 31, 2010

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2010 \$	2009 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the year	590,793	(534,013)	48,009	104,789	(672,626)
Items not affecting cash					
Amortization	746,257	-	-	746,257	645,661
(Gain) loss on sale of investments	554	(393,388)	(31,228)	(424,062)	(371,787)
Unrealized gain on investments	(41,895)	(344,000)	(22,634)	(408,529)	(811,369)
Provision for claims & related costs (note 7)	-	1,552,385	-	1,552,385	1,525,655
Increase in Pension Plan payable	86,317	-	-	86,317	119,514
Decrease in lease inducement	(77,340)	-	-	(77,340)	(77,349)
	1,304,686	280,984	(5,853)	1,579,817	357,699
Change in non-cash working capital items	(196,858)	(19,262)	1,546	(214,574)	260,795
Claims and related costs paid – net of recoveries (note 7)	-	(45,140)	-	(45,140)	(100,651)
	1,107,828	216,582	(4,307)	1,320,103	517,843
Investing activities					
Proceeds on disposal of investments	198,356	7,228,405	362,255	7,789,016	3,551,875
Purchase of investments	(292,031)	(7,319,059)	(335,850)	(7,946,939)	(6,313,005)
Purchase of capital assets	(453,911)	-	-	(453,911)	(630,246)
	(547,586)	(90,654)	26,405	(611,835)	(3,391,376)
Increase (decrease) in cash and cash equivalents	560,242	125,928	22,098	708,268	(2,873,533)
Cash and cash equivalents – beginning of the year	1,688,897	857,006	87,302	2,633,205	5,506,738
Cash and cash equivalents – end of the year	2,249,139	982,934	109,400	3,341,473	2,633,205
Cash and cash equivalents comprised of:					
Cash	32,589	245,462	8,494	286,545	276,212
Treasury bills	2,216,550	737,472	100,906	3,054,928	2,356,993
	2,249,139	982,934	109,400	3,341,473	2,633,205
Interest received	62,628	326,095	30,881	419,604	314,236

The Law Society of Alberta

Notes to Financial Statements

October 31, 2010

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. The financial statements of the Society are prepared on a non-consolidated basis. Refer to Note 11 “Related Party Transactions” for justification of this decision.

2 Changes in accounting policies

Effective in current year

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

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

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

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

Effective in future years

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

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

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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 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:

Category	Financial Instrument
Loans and receivables	Accounts receivable, Accrued interest, Reinsurance recoverables
Held-for-trading	Investments, Cash and cash equivalents, Short-term investments, Trust assets
Financial liabilities	Accounts payable, Due to the Alberta Lawyers Insurance Association, Pension plan payable, Trust liabilities

Financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of the financial instruments is based on their classification. 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 revenue, expenses and fund balances.

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

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 in 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.

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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

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October 31, 2010

existing knowledge, that changes in 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 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 bonds and equity investments.

Investments at October 31 are as follows:

	2010 \$	2009 \$
Bonds (Quoted Canadian)		
Corporate	3,253,774	3,122,389
Municipal	680,818	371,238
Provincial government	2,025,507	2,067,491
Federal government	2,655,009	2,644,602
	<hr/> 8,615,108	<hr/> 8,205,720
Equities		
Quoted Canadian	2,425,330	2,112,616
Quoted United States	2,104,058	1,976,189
Quoted international	1,246,446	1,105,904
	<hr/> 5,775,834	<hr/> 5,194,709
	<hr/> 14,390,942	<hr/> 13,400,429

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 2010, approximately \$158,000 (2009 – \$195,000) 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 2010 fiscal year end were approximately \$29,000 (2009 – \$72,000).

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6 Capital assets

	2010		2009	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	260,969	144,545	116,424	118,754
Computer	1,876,928	1,162,079	714,849	852,336
Leasehold improvements	1,338,626	836,545	502,081	654,610
	<u>3,476,523</u>	<u>2,143,169</u>	<u>1,333,354</u>	<u>1,625,700</u>

7 Reserve for claims and related costs

The change in reinsurance recoverables is summarized as follows:

	2010 \$	2009 \$
Reinsurance recoverables – beginning of year	3,697,691	2,691,161
Increase due to claims experience	<u>1,516,439</u>	<u>1,006,530</u>
Reinsurance recoverables – end of year	<u>5,214,130</u>	<u>3,697,691</u>

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

	2010 \$	2009 \$
Reserve for claims and related costs – beginning of year	<u>7,883,178</u>	<u>5,451,644</u>
Claims paid	(40,724)	(145,094)
Related costs paid and accrued	(11,491)	(28,457)
Recoveries from members and third parties	<u>7,075</u>	<u>72,900</u>
	<u>(45,140)</u>	<u>(100,651)</u>
Increase due to claims experience	<u>3,068,824</u>	<u>2,532,185</u>
Reserve for claims and related costs – end of year	<u>10,906,862</u>	<u>7,883,178</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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In summary, the net exposure is summarized as follows:

	2010 \$	2009 \$
Reserve for claims and related costs – beginning of year	7,883,178	5,451,644
Reinsurance recoverable – beginning of year	(3,697,691)	(2,691,161)
Net exposure – beginning of year	4,185,487	2,760,483
Claims paid	(40,724)	(145,094)
Related costs paid and accrued	(11,491)	(28,457)
Recoveries from members and third parties	7,075	72,900
	4,140,347	2,659,832
Provision for claims and related costs	1,552,385	1,525,655
Net exposure – end of year	5,692,732	4,185,487
Reserve for claims and related costs – end of year	10,906,862	7,883,178
Reinsurance recoverable – end of year	(5,214,130)	(3,697,691)
Net exposure – end of year	5,692,732	4,185,487

The discount rate applied by the actuary at October 31, 2010 is 3.97% (2009 – 3.3%). The undiscounted reserve balance at October 31, 2010 is \$9.8 million (2009 – \$7.0 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, expenses and management fees of the Assurance Fund were in excess of revenues by \$534,013 (2009 – \$984,753 added to the reserve) and this amount, therefore, was drawn from the reserve.

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Scholarship reserve

In the current year, revenues were in excess of expenses by \$48,009 and this amount was, therefore, added to the reserve (2009 – \$84,170 added to the reserve).

9 Pension plan

a) Pension plan payable

	2010	2009
	\$	\$
Pension accrued benefit (liability)	(142,457)	(97,759)
Supplemental plan (liability)	(511,774)	(470,155)
	<u>(654,231)</u>	<u>(567,914)</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 the actuary as of October 31, 2010, the details of the pension plan are as follows:

	2010	2009
	\$	\$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of year	2,132,611	1,956,740
Society contributions during year	160,550	88,118
Actual return on plan assets	228,003	232,095
Less benefits paid during year	(144,824)	(144,342)
	<u>2,376,340</u>	<u>2,132,611</u>
Fair value of plan assets – end of year		
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	2,804,475	2,437,534
Current service cost	136,858	114,061
Interest on accrued benefit obligation	153,807	151,150
Actuarial loss (gain) during year	401,428	246,072
Less benefits paid during year to retirees	(144,824)	(144,342)
	<u>3,351,744</u>	<u>2,804,475</u>
Accrued benefit obligations – end of year		
Plan deficit	<u>(975,404)</u>	<u>(671,864)</u>

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	2010	2009
	\$	\$
Pension cost		
Current service cost	136,858	114,061
Interest cost on accrued benefit obligation	153,807	151,150
Expected return on plan assets	(139,131)	(125,361)
Amortization of transitional obligation	15,873	15,873
Amortization of net actuarial losses	37,841	23,424
	<hr/>	<hr/>
Pension cost recognized during year	205,248	179,147
	<hr/>	<hr/>
Accrued benefit asset		
Beginning balance – Accrued benefit asset (liability)	(97,759)	(6,730)
Plus contributions in the year	160,550	88,118
Less pension cost recognized during year	(205,248)	(179,147)
	<hr/>	<hr/>
Ending balance – Accrued benefit asset (liability)	(142,457)	(97,759)
	<hr/>	<hr/>
Reconciliation of accrued benefit asset (liability)		
Funded status (plan deficit)	(975,404)	(671,864)
Unamortized transitional obligation	4,760	20,603
Unamortized net actuarial loss	828,187	553,502
	<hr/>	<hr/>
Accrued benefit asset (liability)	(142,457)	(97,759)
	<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	30%
Foreign equities	40%
Canadian equity	23%
Cash and cash equivalents	7%
	<hr/>
	100%
	<hr/>

Assumptions

The actuaries used the following rates in their calculations:

	2010	2009
Discount rate – beginning of year	5.50%	6.25%
Discount rate – end of year	4.50%	5.50%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%

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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.

	2010	2009
	\$	\$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of year	552,540	494,191
Current service cost	31,596	21,590
Interest on accrued benefit obligation	30,588	30,802
Actuarial loss during year	204,002	30,249
Less benefits paid during year for retirees	(24,373)	(24,292)
	<hr/>	<hr/>
Accrued benefit obligation – end of year	794,353	552,540
	<hr/>	<hr/>
Pension cost		
Current service cost	31,596	21,590
Interest cost on accrued benefit obligation	30,588	30,802
Amortization of net actuarial losses	3,808	385
	<hr/>	<hr/>
Pension cost recognized during year	65,992	52,777
	<hr/>	<hr/>
Accrued benefit liability		
Beginning balance – accrued benefit liability	(470,155)	(441,670)
Plus contributions in the year	24,373	24,292
Less pension cost recognized during year	(65,992)	(52,777)
	<hr/>	<hr/>
Ending balance – Accrued benefit liability	(511,774)	(470,155)
	<hr/>	<hr/>
Reconciliation of accrued benefit liability		
Funded status (plan deficit)	(794,353)	(552,540)
Unamortized net actuarial loss	282,579	82,385
	<hr/>	<hr/>
Accrued benefit liability	(511,774)	(470,155)
	<hr/>	<hr/>

The Law Society of Alberta

Notes to Financial Statements

October 31, 2010

10 Commitments

The Society is committed to leased office space and equipment for various periods up to the year 2021. Future minimum lease payments are as follows:

	\$
2011	1,547,140
2012	1,536,029
2013	1,542,945
2014	1,543,779
2015 and thereafter	3,543,169

11 Related party transactions

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, 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 share issued to the person from time to time holding the office of Executive Director of the Society, as bare trustee for the Society. The Association is now a wholly owned subsidiary of the Society.

The Association administers a program under which active members of the Society in private practice have mandatory coverage for errors and omissions of \$1,000,000 per occurrence, with a limit of \$2,000,000. The Association is a member of Canadian Lawyers Insurance Association (CLIA), a reciprocal insurance exchange which provides for group coverage subject to premiums and other assessments that may arise from the agreement with CLIA. The Association meets the qualifications of a non-profit organization as defined by the Income Tax Act and, as such, is exempt from taxes.

The Society does not consolidate, in its financial statements, the results of the Association. A summary of the Association's financial information at the year ended June 30, 2010 is as follows:

	\$
Assets	103,395,670
Liabilities	<u>(72,057,175)</u>
Net assets	<u>31,338,495</u>
Revenue	23,859,904
Expenses	<u>(27,392,913)</u>
Deficiency of revenue over expenses before the following:	(3,533,009)
Unrealized loss on fair market value of investments	<u>(2,336,469)</u>
Deficiency of revenue over expenses	<u>(5,869,478)</u>

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Cash flows from Operating Activities	\$ 2,908,134
Cash flows from Investing Activities	<u>(1,969,664)</u>
Increase in cash and cash equivalents	<u>938,470</u>

During the year ended October 31, 2010, the Society received from the Association an amount of \$1,175,604 (2009 – \$1,016,100) for management fees. As at October 31, 2010, an amount of \$4,228 (2009 – \$92,335) was due to the Association 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

Fair Value

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 equity investments at fair market value based upon quoted market values. Bond values are determined from multiple sources using the average bid/ask spread and at various times of day. The fair value of reinsurance recoverables and reserve for claims and related costs is based upon annual actuarial assessments. The fair value of pension plan payables is based upon annual actuarial assessments.

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 who is guided by an agreed Statement of Investment Policies and Goals to mitigate interest rate risk.

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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% to 0.22%. Included in investments are fixed income bonds in the amount of \$8,615,108. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	Interest rate Range	Market value \$	Interest rate Range	Market value \$
	2010		2009	
Within five years	2.20 – 6.15%	3,171,234	2.20 – 5.25%	2,133,685
Greater than five years but less than ten years	3.66 – 5.68%	4,796,752	4 – 5.45%	4,526,079
Greater than ten years	4.70 – 5.70%	<u>647,122</u>	4.70 – 6.15%	<u>1,545,934</u>
		<u>8,615,108</u>		<u>8,205,698</u>

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

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.