

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2014



April 10, 2015

Independent Auditor's Report

To the Members of the Law Society of Alberta

We have audited the accompanying non-consolidated financial statements of the Law Society of Alberta, which comprise the non-consolidated balance sheet as at December 31, 2014 and the non-consolidated statements of revenue, expenses and fund balances, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of the Law Society of Alberta as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
Suite 3100, 111 5 Avenue SW, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2014

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2014 \$	2013 \$
Assets					
Current assets					
Cash and cash equivalents	4,146,600	1,534,926	275,656	5,957,182	4,515,590
Accounts receivable	631,805	2,265,529	4	2,897,338	854,008
Accrued interest receivable	2,698	23,443	3,953	30,094	50,845
Prepaid expenses	159,104	154,322	-	313,426	234,486
Interfund balances	(67,553)	67,496	57	-	-
	4,872,654	4,045,716	279,670	9,198,040	5,654,929
Investments (note 3)	610,289	7,849,480	1,357,456	9,817,225	12,227,692
Reinsurance recoverable (note 6)	-	6,581,000	-	6,581,000	9,140,000
Trust assets (note 4)	1,487,138	-	-	1,487,138	1,442,804
Capital assets (note 5)	2,981,929	-	-	2,981,929	1,817,374
	9,952,010	18,476,196	1,637,126	30,065,332	30,282,799
Liabilities					
Current liabilities					
Deferred revenue (note 2)	4,677,044	1,125,805	-	5,802,849	5,170,133
Accounts payable and accrued liabilities Due to The Alberta Lawyers Insurance Association (note 11)	1,016,608	65,972	-	1,082,580	980,867
	10,336	-	-	10,336	86,133
Deferred lease inducement	-	-	-	-	77,340
Capital lease obligation (note 7)	36,170	-	-	36,170	33,527
	5,740,158	1,191,777	-	6,931,935	6,348,000
Long-term liabilities					
Reserve for claims and related costs (note 6)	-	13,460,000	-	13,460,000	15,345,000
Trust liabilities (note 4)	1,487,138	-	-	1,487,138	1,442,804
Pension plan payable (note 9)	2,319,912	-	-	2,319,912	1,862,283
Capital lease obligation (note 7)	60,632	-	-	60,632	-
	3,867,682	13,460,000	-	17,327,682	18,650,087
	9,607,840	14,651,777	-	24,259,617	24,998,087
Fund balances					
Invested in capital assets	2,981,929	-	-	2,981,929	1,817,374
Externally restricted funds (note 8)					
Contingency reserve	-	3,824,419	-	3,824,419	4,829,257
Scholarship reserve	-	-	1,637,126	1,637,126	1,486,531
Unrestricted funds	(2,637,759)	-	-	(2,637,759)	(2,848,450)
	344,170	3,824,419	1,637,126	5,805,715	5,284,712
	9,952,010	18,476,196	1,637,126	30,065,332	30,282,799
Commitments (note 10)					

Approved by the Benchers

Original signed by J. Eamon, President Bencher

Original signed by A. Kirker, President – Elect. Bencher

The Law Society of Alberta

Non-consolidated Statement of Revenue, Expenses and Fund Balances For the year ended December 31, 2014

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2014 \$	2013 \$
Revenue					
Practice fees	18,728,617	5,254,479	-	23,983,096	21,691,807
Investment income	93,032	1,426,910	99,123	1,619,065	1,220,587
Management fee (note 11)	1,860,000	-	-	1,860,000	1,692,000
Enrolment and application fees	588,128	-	-	588,128	487,770
Other	23,272	-	-	23,272	115,000
Fines and penalties	46,000	-	-	46,000	67,000
	<u>21,339,049</u>	<u>6,681,389</u>	<u>99,123</u>	<u>28,119,561</u>	<u>25,274,164</u>
Expenses					
Corporate costs					
Premises operating costs	1,870,544	-	-	1,870,544	1,495,237
General corporate costs	498,229	41,293	4,500	544,022	1,520,509
Amortization	1,121,886	-	-	1,121,886	845,464
Indemnity bond fees	-	403,931	-	403,931	249,072
Departmental costs					
Secretariat	2,118,271	-	-	2,118,271	1,801,492
Counsel	2,258,699	-	-	2,258,699	1,990,810
Trust safety	-	2,218,929	-	2,218,929	2,100,753
Conduct	2,374,447	-	-	2,374,447	2,549,893
Custodianships	-	982,592	-	982,592	644,455
Membership	1,594,477	-	-	1,594,477	1,643,780
Administration	1,338,923	-	-	1,338,923	1,362,152
Human resources	966,903	-	-	966,903	940,447
Business technology	2,534,257	-	-	2,534,257	2,422,754
Accounting	440,103	-	-	440,103	448,329
Professionalism, competence, & access	2,950,080	-	-	2,950,080	2,727,158
Investigations	492,278	-	-	492,278	539,144
Communications	617,980	-	-	617,980	584,520
Privacy and records management	477,712	-	-	477,712	448,421
Practice review	501,501	-	-	501,501	529,144
Policy and research	907,469	-	-	907,469	996,253
Provision for claims & related costs net (note 6)	-	855,404	-	855,404	1,335,776
Scholarships	-	-	-	-	40,000
	<u>23,063,759</u>	<u>4,502,149</u>	<u>4,500</u>	<u>27,570,408</u>	<u>27,215,563</u>
(Deficiency) excess of revenue over expenses for the year before other items	(1,724,710)	2,179,240	94,623	549,153	(1,941,399)
Other items:					
Unrealized gain (loss) on investments	24,784	(295,078)	55,972	(214,322)	476,775
Recovered costs	516,092	3,000	-	519,092	282,445
Interfund management fees	2,892,000	(2,892,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	1,708,166	(1,004,838)	150,595	853,923	(1,182,179)
Fund balance (deficiency) – beginning of year	(1,031,076)	4,829,257	1,486,531	5,284,712	6,014,555
Pension plan remeasurements and other items	(332,920)	-	-	(332,920)	452,336
Fund balance – end of year	<u>344,170</u>	<u>3,824,419</u>	<u>1,637,126</u>	<u>5,805,715</u>	<u>5,284,712</u>

The accompanying notes are an integral part of the financial statements.

The Law Society of Alberta
 Non-consolidated Statement of Cash Flows
 For the year ended December 31, 2014

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2014 \$	2013 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	1,708,166	(1,004,838)	150,595	853,923	(1,182,179)
Items not affecting cash					
Amortization	1,121,886	-	-	1,121,886	845,464
Gain on sale of investments	(4,094)	(1,143,617)	(57,160)	(1,204,871)	(778,886)
Unrealized (gain) loss on investments	(24,784)	295,078	(55,972)	214,322	(476,775)
Provision for claims & related costs (note 6)	-	855,404	-	855,404	1,335,776
Lease inducement	(77,340)	-	-	(77,340)	(77,340)
	2,723,834	(997,973)	37,463	1,763,324	(333,940)
Change in non-cash working capital items	552,611	(1,933,320)	1,099	(1,379,610)	815,960
Claims and related costs paid – net of recoveries (note 6)	-	(181,404)	-	(181,404)	(1,919,757)
Pension plan remeasurements and other items	(332,920)	-	-	(332,920)	452,336
Increase in pension plan payable	457,630	-	-	457,630	412,148
	3,401,155	(3,112,697)	38,562	327,020	(573,253)
Investing activities					
Proceeds on disposal of investments	123,210	8,565,287	388,183	9,076,680	7,267,921
Purchase of investments	(152,681)	(5,206,226)	(316,759)	(5,675,666)	(5,609,371)
Purchase of capital assets	(2,286,442)	-	-	(2,286,442)	(601,422)
	(2,315,913)	3,359,061	71,424	1,114,572	1,057,128
Increase (decrease) in cash and cash equivalents	1,085,242	246,364	109,986	1,441,592	483,875
Cash and cash equivalents – beginning of the year	3,061,358	1,288,562	165,670	4,515,590	4,031,715
Cash and cash equivalents – end of the year	4,146,600	1,534,926	275,656	5,957,182	4,515,590
Cash and cash equivalents comprised of:					
Cash	254,806	142,145	29,236	426,187	594,371
Cash equivalents	3,891,794	1,392,781	246,420	5,530,995	3,921,219
	4,146,600	1,534,926	275,656	5,957,182	4,515,590
Interest received	90,065	196,472	25,531	312,068	319,121

The accompanying notes are an integral part of the financial statements.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

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”).

2 Summary of significant accounting policies

Basis of accounting

These financial statements are prepared in accordance with Canadian Accounting Standards for not for profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Use of estimates

The preparation of the financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

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 maintained to reimburse, at the discretion of the Benchers, the principal amount of losses caused by a lawyer through the misappropriation or wrongful conversion of money or other property entrusted to or received by a lawyer in their professional capacity and in the course of the lawyer's legal practice.

In addition, the Assurance Fund is maintained to provide for the cost of review of lawyers' trust accounts, custodianships and the investigation of claims.

The Assurance Fund was closed to claims for lawyer misappropriation of trust funds that occurred after June 30, 2014. Claims for trust fund misappropriation that occur subsequent to June 30, 2014 are covered though the Trust Safety Insurance program administered by the Alberta Lawyers Insurance Association.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

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 for law graduates, students-at-law or lawyers ordinarily resident in Alberta to support post-graduate legal studies.

Financial Instruments

The Society initially measures financial assets and financial liabilities at fair value. It subsequently measures its investments at fair value. The financial assets subsequently measured at amortized cost include cash and cash equivalents, accounts receivable and accrued interest receivable. The financial liabilities subsequently recorded at amortized cost include accounts payable and accrued liabilities.

The Society's investments consist of equity securities, corporate bonds, municipal government bonds, provincial government bonds and federal government bonds. The investments in equity securities which are traded on active markets are recorded at fair value. The Society has elected to record the investments in corporate bonds, municipal government bonds, provincial government bonds and federal government bonds at fair value. Changes in fair value of the investments are recorded on the statement of revenue, expenses and fund balances. The investments which are not traded on active markets are recorded at cost.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired.

Revenue recognition and deferred revenue

The Society follows the deferral method for revenue recognition. The Society's membership year runs from March 15 to March 15 of the subsequent year. Amounts received or receivable from the practice fee and Assurance Fund levy that pertain to the membership period subsequent to the year-end are deferred and recognized as revenue in the next fiscal year. Fees and levies 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.

Reserve and Provision for claims and related costs

The provision for claims and related costs in the Assurance Fund is based upon the change from year to year in the reinsurance recoverable and reserve for claims and related costs. The reserve value is based on the actuarially determined discounted cost of possible claims and related costs as at the end of the fiscal year.

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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

Reinsurance recoverable

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 recoverable.

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.

Investment income

Investment income comprises of interest, dividends, fund distributions, and gains and losses realized on the disposal of investments. Interest and dividends earned on investments are included as revenue on an accrual basis. The change in fair value of investments is recorded in the statement of revenue, expenses and fund balances as an unrealized gain (loss).

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%
Furniture and equipment under capital lease	20%
Computer	33-1/3%
Leasehold improvements	Over lease term (ranging from 2 to 10 years)

Deferred lease inducement

The deferred lease inducement, representing the benefit of cash inducements, is amortized over the remaining term of the applicable 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) is an unfunded plan and does not hold any assets. The Society recognizes past service costs and actuarial gains and losses in the period they arise within remeasurements and other items. The Society measures the defined benefit obligation as of the balance sheet date using the most recently completed actuarial valuation prepared for

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

accounting purposes. In the years between valuations, the Society uses a roll-forward technique to estimate the accrued benefit obligation.

Change in accounting policy

During the year, the Society adopted Section 3462 “Employee future benefits” of the CPA Canada Handbook Part II and Section 3463 “Reporting employee future benefits by not-for-profit organizations” of the CPA Handbook Part III. These Sections require the recognition of past services costs and actuarial gains and losses in the period they arise and as such the deferral and amortization approach has been eliminated. The Section allows the Society to use the funding valuation or the valuation prepared for accounting purposes for the measurement of the defined benefit obligation for its defined benefit plan. The Society elected to use the valuation prepared for accounting purposes. For the unfunded plan, the Society may prepare an actuarial valuation on a basis consistent with a funding valuation. In addition, plan obligations and plan assets must be measured at the balance sheet date.

The Sections also require that remeasurments and other items be recognized directly in fund balances in the balance sheet, and be presented as a separately identified line in the statement of changes in fund balances.

Pension expense included the current service cost, net interest and amortization of past service costs and actuarial gains and losses. Past service costs and actuarial gains and losses were amortized in a rational and systematic manner over an appropriate period of time as they arose. Actuarial gains and losses were recognized only if the amounts exceeded 10% of the value of the assets or defined benefit obligation.

In accordance with the transitional provisions of Section 3463, changes in accounting policies have been applied retrospectively for comparative purposes. The following is a summary of the impact of the adjustments related to the adoption of Section 3462 and Section 3463 on the financial statements as at January 1, 2013, December 31, 2013 and for the year ended December 31, 2013:

	As previously stated \$	Revised \$
As at January 1, 2013		
Fund balance (deficiency)	6,613,221	6,014,555
As at December 31, 2013		
Pension plan payable	1,263,617	1,862,283
Fund balance (deficiency)	5,883,378	5,284,712
For the year ended December 31, 2013		
General corporate costs	1,068,173	1,520,509
Excess (deficiency) of revenues over expenses for the year	(1,489,063)	(1,941,399)
Pension plan remeasurements and other items	-	452,336
Fund balance end of year	5,883,378	5,284,712

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

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 service of many volunteers, particularly the significant contribution of the Benchers and committees 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.

3 Investments

The Society's investments are governed by a Statement of Investment Policies and Goals approved by the Benchers and managed under contract with an investment manager. The Society's investments are carried at fair market value, subject to normal market fluctuations, and the statement of revenue, expenses, and fund balances reports both realized and unrealized gains and losses on investments. The Society's investments consist of bonds and equity investments.

Investments at December 31 are as follows:

	2014	2013
	\$	\$
Bonds denominated in Canadian dollars:		
Corporate	2,386,486	3,020,131
Municipal government	39,033	-
Provincial government	1,582,890	1,924,916
Federal government	1,869,443	2,263,528
	<hr/>	<hr/>
	5,877,852	7,208,575
Equities denominated in Canadian dollars:		
	3,939,373	5,019,117
	<hr/>	<hr/>
	9,817,225	12,227,692
	<hr/>	<hr/>

4 Trust assets and liabilities

The Legal Profession Act provides that lawyers' trust funds which cannot be disbursed to clients must be forwarded to the Society. In 2014, approximately \$258,000 (2013 – \$201,000) was received. The Society holds the funds in trust for five years, refunds amounts to claimants as appropriate, and thereafter forwards any unclaimed funds less an administration fee to the Alberta Law Foundation. The administration fee is set at 2.5% of the principal and 10% of the income in each year. Amounts forwarded to the Alberta Law Foundation during the 2014 fiscal period totalled approximately \$184,000 (2013 – \$92,000).

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

5 Capital assets

			2014	2013
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	931,110	452,283	478,827	216,745
Computer	3,033,620	1,518,919	1,514,701	852,368
Leasehold improvements	2,464,895	1,476,494	988,401	748,261
	<u>6,429,625</u>	<u>3,447,696</u>	<u>2,981,929</u>	<u>1,817,374</u>

Included in furniture and equipment are assets acquired through capital lease with a net book value of \$96,802 (2013 - \$33,527).

6 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2014 \$	2013 \$
Reinsurance recoverable – beginning of period	9,140,000	7,187,041
(Decrease) Increase due to claims experience	<u>(2,559,000)</u>	<u>1,952,959</u>
Reinsurance recoverable – end of period	<u>6,581,000</u>	<u>9,140,000</u>

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

	2014 \$	2013 \$
Reserve for claims and related costs – beginning of period	<u>15,345,000</u>	<u>13,976,022</u>
Claims paid	(1,828,827)	(1,975,189)
Related costs paid and accrued	(171,686)	(194,075)
Recoveries from members and third parties	<u>1,819,109</u>	<u>249,507</u>
	<u>(181,404)</u>	<u>(1,919,757)</u>
(Decrease) Increase due to claims experience	<u>(1,703,596)</u>	<u>3,288,735</u>
Reserve for claims and related costs – end of period	<u>13,460,000</u>	<u>15,345,000</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

Case reserves (indemnity and external expenses)	6,003,000	6,870,000
IBNR (Incurred but not reported claim) reserve (indemnity and external expenses)	5,701,000	6,306,500
Provision for internal claim administration	261,000	376,000
Provision for adverse deviation	1,495,000	1,792,500
Reserve for claims and related costs	13,460,000	15,345,000

A portion of the reserve for claims and related costs is expected to be paid within the next fiscal year. This amount cannot be reasonably determined and therefore has not been included in current liabilities.

In summary, the net exposure is summarized as follows:

	2014 \$	2013 \$
Reserve for claims and related costs – beginning of period	15,345,000	13,976,022
Reinsurance recoverable – beginning of period	(9,140,000)	(7,187,041)
Net exposure – beginning of period	6,205,000	6,788,981
Claims paid	(1,828,827)	(1,975,189)
Related costs paid and accrued	(171,686)	(194,075)
Recoveries from members and third parties	1,819,109	249,507
	6,023,596	4,869,224
Provision for claims and related costs	855,404	1,335,776
Net exposure – end of period	6,879,000	6,205,000
Reserve for claims and related costs – end of period	13,460,000	15,345,000
Reinsurance recoverable – end of period	(6,581,000)	(9,140,000)
Net exposure – end of period	6,879,000	6,205,000

The discount rate applied by the actuary at December 31, 2014 is 2.905% (2013 – 3.46%). The undiscounted reserve balance at December 31, 2014 is \$12.8 million (2013 – \$15 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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

7 Capital lease obligation

The Society's capital lease obligation is as follows:

	\$
2015	36,170
2016	36,170
2017	24,462

Interest expense incurred on the lease for the year amounted to \$3,031 (2013 - \$4,274) at an annual interest rate of 8%.

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 period, expenses and management fees exceeded revenue of the Assurance Fund by \$1,004,838 and this amount, therefore, reduced the reserve (2013 – expenses and management fees exceeded revenue by \$328,835).

Scholarship reserve

In the current period, revenue exceeded expenses by \$150,595 and this amount was, therefore, added to the reserve (2013 – \$125,622).

9 Pension plan

a) Pension plan payable

	2014 \$	2013 \$
Pension accrued liability	790,814	609,825
Supplemental plan liability	1,529,098	1,252,458
	<u>2,319,912</u>	<u>1,862,283</u>

The Society provides a non-contributory defined benefit pension plan to eligible management employees based on earnings and years of service. The defined benefit pension plan was closed to management employees commencing employment after May 31, 2006.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

On advice of the actuary as of December 31, 2014, the details of the pension plan are as follows:

	2014 \$	2013 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	3,068,829	2,602,368
Society contributions during period	69,059	69,896
Actual return on plan assets	357,432	565,084
Less benefits paid during period to retirees	(175,548)	(168,519)
	<u>3,319,772</u>	<u>3,068,829</u>
Fair value of plan assets – end of period		
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	3,678,654	3,662,261
Current service cost	101,689	114,208
Interest on accrued benefit obligation	169,340	139,952
Actuarial gain (loss) during period	336,451	(69,248)
Less benefits paid during period to retirees	(175,548)	(168,519)
	<u>4,110,586</u>	<u>3,678,654</u>
Accrued benefit obligations – end of period		
Plan deficit	(790,814)	(609,825)
Pension cost		
Current service cost	101,689	114,208
Finance cost	(4,056)	(6,849)
Remeasurements and other items	152,415	(487,531)
	<u>250,048</u>	<u>(380,172)</u>
Pension cost recognized during period		
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(609,825)	(1,059,893)
Plus contributions in the period	69,059	69,896
Less pension cost recognized during period	(250,048)	380,172
	<u>(790,814)</u>	<u>(609,825)</u>
Ending balance – Accrued benefit liability		

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	31%
Foreign equities	44%
Canadian equity	17%
Cash and cash equivalents	8%
	<u>100%</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

Assumptions

The actuary used the following rates in their calculations:

	2014	2013
Discount rate – beginning of period	4.65%	3.85%
Discount rate – end of period	3.85%	4.65%
Expected long-term rate of return on plan assets	5.75%	5.75%
Rate of compensation increase	3.50%	3.50%

b) 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. The SRP was closed to management employees commencing employment after May 31, 2006.

	2014	2013
	\$	\$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	1,252,458	1,139,865
Current service cost	63,498	58,930
Interest on accrued benefit obligation	59,100	44,518
Actuarial loss during period	180,505	35,195
Less benefits paid during period for retirees	(26,463)	(26,050)
Accrued benefit obligation – end of period	<u>1,529,098</u>	<u>1,252,458</u>
Pension cost		
Current service cost	63,498	58,930
Interest cost on accrued benefit obligation	59,100	44,518
Net actuarial losses	180,505	35,195
Pension cost recognized during period	<u>303,103</u>	<u>138,643</u>
Accrued benefit liability		
Beginning balance – accrued benefit liability	1,252,458	1,139,865
Plus contributions in the period	26,463	26,050
Less pension cost recognized during period	(303,103)	(138,643)
Ending balance – Accrued benefit liability	<u>(1,529,098)</u>	<u>1,252,458</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

10 Commitments

The Society is committed to leased office space and equipment for various periods up to the year 2021. In addition, the Society has annual funding commitments to related not-for-profit organizations. Future minimum lease payments and funding commitments are as follows:

	\$
2015	4,360,757
2016	2,636,788
2017	2,150,902
2018	2,181,460
2019 and thereafter	2,830,460

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 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 a wholly-owned subsidiary of the Society.

The Association administers a program under which each active member of the Society in private practice (insured lawyers) has mandatory coverage for errors and omissions (or Professional Liability Insurance) of \$1,000,000 per occurrence, with an annual aggregate limit of \$2,000,000. Effective July 1, 2014 the Association administers a program under which each insured lawyer has mandatory coverage for misappropriation from lawyer trust accounts (or Trust Safety Insurance) of \$5,000,000 per occurrence, with a profession-wide annual aggregate limit of \$25,000,000.

Prior to July 1, 2014 the Association contracted with the Canadian Lawyers Insurance Association (“CLIA”) for group Professional Liability coverage subject to a group deductible of \$500,000 for each claim. The Association was subject to premiums and other assessments that arose from the agreement with CLIA. In place of CLIA, the Alberta Lawyers Insurance Exchange (the “Exchange”) was created effective July 1, 2014. The Exchange is a reciprocal insurance exchange through which the Law Society, the Association and insured lawyers entered into agreements of mutual indemnification. The Exchange provides the Association with group coverage for Professional Liability and Trust Safety Insurance subject to a deductible of \$500,000 for each Professional Liability claim.

The Association and the Exchange meet the qualifications of a non-profit organization as defined by the Income Tax Act and, as such, is exempt from taxes.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

The Society does not consolidate, in its financial statements, the results of the Association. A summary of the Association's financial information for the year ended December 31, 2014 is as follows:

	2014 \$	2013 \$
Assets	119,962,584	117,870,456
Liabilities	<u>(85,165,085)</u>	<u>(78,872,269)</u>
Net assets	<u>34,797,499</u>	<u>38,998,187</u>
Revenue	32,680,023	29,334,501
Expenses	<u>(34,145,735)</u>	<u>(29,095,924)</u>
Excess (deficiency) of revenue over expenses before the following:	(1,465,712)	238,577
Unrealized gain on fair market value of investments	<u>2,265,024</u>	<u>4,746,652</u>
Excess (deficiency) of revenue over expenses	<u>799,312</u>	<u>4,985,229</u>
Cash flows from Operating Activities	(10,130,669)	(5,676,681)
Cash flows from Investing Activities	<u>15,517,783</u>	<u>1,140,130</u>
(Decrease) increase in cash and cash equivalents	<u>5,387,114</u>	<u>(4,536,551)</u>

During the year ended December 31, 2014, the Society received from the Association an amount of \$1,860,000 (2013 – \$1,692,000) for management fees. As at December 31, 2014, an amount of \$10,336 (2013 – \$86,133) 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.

The elected Benchers of the Law Society include lawyers drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2014, expenses of \$344,070 (2013 - \$155,292) were incurred with these law firms. The Benchers are not involved in the retention of these firms.

12 Financial instruments

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 the Statement of Investment Policies and Goals to mitigate interest rate risk.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2014

Treasury bills have a maturity date within a year of the balance sheet date and bear an interest rate of 0.83% to 0.91%. Included in investments are fixed income bonds in the amount of \$5,877,852. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	2014 Interest rate Range	2014 Market value \$	2013 Interest rate Range	2013 Market value \$
Within five years	1.82 – 5.68%	2,117,650	1.33 – 4.80%	2,758,767
Greater than five years but less than ten years	2.40 – 4.15%	2,935,241	2.65 – 5.68%	2,799,655
Greater than ten years	3.45 – 4.70%	824,961	2.50 – 4.70%	1,650,153
		<u>5,877,852</u>		<u>7,208,575</u>

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.

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, by only investing in securities that are liquid, highly rated and traded in active markets and by ensuring accounts receivable are from reputable, credit-worthy individuals and organizations.

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.