

# **The Law Society of Alberta**

Non-consolidated Financial Statements  
**December 31, 2015**



April 8, 2016

## **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, 2015 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, 2015 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 Professional Accountants**

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

# The Law Society of Alberta

## Non-consolidated Balance Sheet

As at December 31, 2015

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2015 \$	2014 \$
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	6,386,337	1,274,888	280,700	7,941,925	5,957,182
Accounts receivable	570,136	2,349,370	4	2,919,510	2,897,338
Accrued interest receivable	-	-	-	-	30,094
Prepaid expenses	183,786	-	-	183,786	313,426
Due from (to) related parties (note 11)	1,935	-	-	1,935	(10,336)
Interfund balances	190	(190)	-	-	-
	7,142,384	3,624,068	280,704	11,047,156	9,187,704
<b>Investments</b> (note 3)	634,314	6,540,558	1,458,609	8,633,481	9,817,225
<b>Reinsurance recoverable</b> (note 6)	-	6,600,000	-	6,600,000	6,581,000
<b>Trust assets</b> (note 4)	1,791,049	-	-	1,791,049	1,487,138
<b>Capital assets</b> (note 5)	3,183,809	-	-	3,183,809	2,981,929
	12,751,556	16,764,626	1,739,313	31,255,495	30,054,996
<b>Liabilities</b>					
<b>Current liabilities</b>					
Deferred revenue	6,140,673	-	-	6,140,673	5,802,849
Accounts payable and accrued liabilities	917,643	10,565	-	928,208	1,082,580
Capital lease obligation (note 7)	36,170	-	-	36,170	36,170
	7,094,486	10,565	-	7,105,051	6,921,599
<b>Long-term liabilities</b>					
Reserve for claims and related costs (note 6)	-	12,400,000	-	12,400,000	13,460,000
Trust liabilities (note 4)	1,791,049	-	-	1,791,049	1,487,138
Pension plan payable (note 9)	2,376,961	-	-	2,376,961	2,319,912
Capital lease obligation (note 7)	24,462	-	-	24,462	60,632
	4,192,472	12,400,000	-	16,592,472	17,327,682
	11,286,958	12,410,565	-	23,697,523	24,249,281
<b>Fund balances</b>					
Invested in capital assets	3,183,809	-	-	3,183,809	2,981,929
Externally restricted funds (note 8)					
Contingency reserve	-	4,354,061	-	4,354,061	3,824,419
Scholarship reserve	-	-	1,739,313	1,739,313	1,637,126
Unrestricted funds	(1,719,211)	-	-	(1,719,211)	(2,637,759)
	1,464,598	4,354,061	1,739,313	7,557,972	5,805,715
	12,751,556	16,764,626	1,739,313	31,255,495	30,054,996
<b>Commitments</b> (note 10)					

## Approved by the Benchers

Original signed by A. Kirker, President    Bencher    Original signed by D. Scott, Audit Committee Chair    Bencher

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

# The Law Society of Alberta

## Non-consolidated Statement of Revenue, Expenses and Fund Balances For the year ended December 31, 2015

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2015 \$	2014 \$
<b>Revenue</b>					
Practice fees	25,529,041	-	-	25,529,041	23,983,096
Investment income	148,493	1,168,210	223,318	1,540,021	1,619,065
Management fee (note 11)	2,208,000	-	-	2,208,000	1,860,000
Enrolment and application fees	564,285	-	-	564,285	588,128
Other	72,579	-	-	72,579	23,272
Fines and penalties	39,000	-	-	39,000	46,000
	<u>28,561,398</u>	<u>1,168,210</u>	<u>223,318</u>	<u>29,952,926</u>	<u>28,119,561</u>
<b>Expenses</b>					
Corporate costs					
Premises operating costs	2,229,327	-	-	2,229,327	1,870,544
General corporate costs	678,340	44,057	4,831	727,228	544,022
Amortization	1,319,580	-	-	1,319,580	1,121,886
Indemnity bond fees	-	154,321	-	154,321	403,931
Departmental costs					
Secretariat	1,747,115	-	-	1,747,115	2,118,271
Counsel	1,906,189	-	-	1,906,189	2,258,699
Trust safety	1,789,061	-	-	1,789,061	2,218,929
Conduct	2,292,607	-	-	2,292,607	2,374,447
Custodianships	923,180	-	-	923,180	982,592
Membership	1,667,040	-	-	1,667,040	1,594,477
Administration	1,183,314	-	-	1,183,314	1,338,923
Human resources	1,172,999	-	-	1,172,999	966,903
Business technology	2,807,835	-	-	2,807,835	2,534,257
Accounting	468,766	-	-	468,766	440,103
Professionalism, competence, & access	3,581,118	-	-	3,581,118	2,950,080
Investigations	1,528,463	-	-	1,528,463	492,278
Communications	733,110	-	-	733,110	617,980
Information management	468,788	-	-	468,788	477,712
Practice review	612,699	-	-	612,699	501,501
Tribunal	514,133	-	-	514,133	-
Governance	451,977	-	-	451,977	907,469
Provision for claims & related costs net (note 6)	-	(64,060)	-	(64,060)	855,404
Scholarships	-	-	20,000	20,000	-
	<u>28,075,641</u>	<u>134,318</u>	<u>24,831</u>	<u>28,234,790</u>	<u>27,570,408</u>
Excess of revenue over expenses for the year before other items	485,757	1,033,892	198,487	1,718,136	549,153
Other items:					
Unrealized loss on investments	(43,333)	(507,250)	(96,300)	(646,883)	(214,322)
Bar admission program cost recovery	500,550	-	-	500,550	-
Recovered costs	177,454	3,000	-	180,454	519,092
<b>Excess (deficiency) of revenue over expenses for the year</b>	<b>1,120,428</b>	<b>529,642</b>	<b>102,187</b>	<b>1,752,257</b>	<b>853,923</b>
<b>Fund balance – beginning of year</b>	<b>344,170</b>	<b>3,824,419</b>	<b>1,637,126</b>	<b>5,805,715</b>	<b>5,284,712</b>
Pension plan remeasurements and other items	-	-	-	-	(332,920)
<b>Fund balance – end of year</b>	<b>1,464,598</b>	<b>4,354,061</b>	<b>1,739,313</b>	<b>7,557,972</b>	<b>5,805,715</b>

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, 2015

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2015 \$	2014 \$
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Excess (deficiency) of revenue over expenses for the period	1,120,428	529,642	102,187	1,752,257	853,923
Items not affecting cash					
Amortization	1,319,580	-	-	1,319,580	1,121,886
Gain on sale of investments	(43,054)	(845,683)	(153,210)	(1,041,947)	(1,204,871)
Unrealized (gain) loss on investments	43,333	507,250	96,301	646,884	214,322
Provision for claims & related costs (note 6)	-	(64,060)	-	(64,060)	855,404
Lease inducement	-	-	-	-	(77,340)
	2,440,287	127,149	45,278	2,612,714	1,763,324
Change in non-cash working capital items	1,288,165	(1,019,602)	4,010	272,573	(1,379,610)
Claims and related costs paid – net of recoveries (note 6)	-	(1,014,940)	-	(1,014,940)	(181,404)
Pension plan re-measurements and other items	-	-	-	-	(332,920)
Increase in pension plan payable	57,049	-	-	57,049	457,630
	3,785,501	(1,907,393)	49,288	1,927,396	327,020
<b>Investing activities</b>					
Proceeds on disposal of investments	719,428	7,698,843	1,108,855	9,527,126	9,076,680
Purchase of investments	(743,733)	(6,051,488)	(1,153,100)	(7,948,321)	(5,675,666)
Purchase of capital assets	(1,521,459)	-	-	(1,521,459)	(2,286,442)
	(1,545,764)	1,647,355	(44,245)	57,346	1,114,572
<b>Increase (decrease) in cash and cash equivalents</b>	2,239,737	(260,038)	5,043	1,984,742	1,441,592
<b>Cash and cash equivalents – beginning of the year</b>	4,146,600	1,534,926	275,657	5,957,183	4,515,590
<b>Cash and cash equivalents – end of the year</b>	6,386,337	1,274,888	280,700	7,941,925	5,957,182
<b>Cash and cash equivalents comprised of:</b>					
Cash	932,125	82,215	24,989	1,039,329	426,187
Cash equivalents	5,454,212	1,192,673	255,711	6,902,596	5,530,995
	6,386,337	1,274,888	280,700	7,941,925	5,957,182
Interest received	108,136	177,492	39,951	325,579	312,068

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, 2015

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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 to 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.

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.

#### 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.

# **The Law Society of Alberta**

## Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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### **Financial Instruments**

The Society initially measures financial assets and financial liabilities at cost. 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 that pertain to the membership period subsequent to the year-end are deferred and recognized as revenue in the next fiscal year.

Investment income earned on investments is recognized in the fund in which the investments are maintained.

### **Recoveries**

Recoveries from reinsurers 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.

### **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.

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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## 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)

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

## 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. Due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.



# The Law Society of Alberta

## Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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### 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:

	2015 \$	2014 \$
<b>Bonds denominated in Canadian dollars:</b>		
Corporate	1,824,038	2,386,486
Municipal government	83,333	39,033
Provincial government	1,523,566	1,582,890
Federal government	1,712,936	1,869,443
T-Bills	81,045	-
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	5,224,918	5,877,852
<b>Equities denominated in Canadian dollars:</b>		
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	3,408,563	3,939,373
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	8,633,481	9,817,225

### 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 2015, approximately \$519,000 (2014 – \$258,000) 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 2015 fiscal period totalled approximately \$181,000 (2014 – \$184,000).

### 5 Capital assets

	2015		2014	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	782,330	351,396	430,934	478,827
Computer	3,705,983	2,064,039	1,641,944	1,514,701
Leasehold improvements	1,748,649	637,718	1,110,931	988,401
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	6,236,962	3,053,153	3,183,809	2,981,929

# The Law Society of Alberta

## Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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Included in furniture and equipment are assets acquired through a capital lease with a net book value of \$69,674 (2014 - \$96,802).

### 6 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2015 \$	2014 \$
Reinsurance recoverable – beginning of period	6,581,000	9,140,000
(Decrease) Increase due to claims experience	19,000	(2,559,000)
Reinsurance recoverable – end of period	<u>6,600,000</u>	<u>6,581,000</u>

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

	2015 \$	2014 \$
<b>Reserve for claims and related costs – beginning of period</b>	<u>13,460,000</u>	<u>15,345,000</u>
Claims paid	(870,119)	(1,828,827)
Related costs paid and accrued	(300,207)	(171,686)
Recoveries from members and third parties	155,386	1,819,109
	<u>(1,014,940)</u>	<u>(181,404)</u>
(Decrease) Increase due to claims experience	(45,060)	(1,703,596)
<b>Reserve for claims and related costs – end of period</b>	<u>12,400,000</u>	<u>13,460,000</u>
Case reserves (indemnity and external expenses)	5,064,000	6,003,000
Incurred but not reported claim reserve (indemnity and external expenses)	5,921,000	5,701,000
Provision for internal claim administration	104,000	261,000
Provision for adverse deviation	1,311,000	1,495,000
<b>Reserve for claims and related costs</b>	<u>12,400,000</u>	<u>13,460,000</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 Non-consolidated Financial Statements

For the year ended December 31, 2015

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In summary, the net exposure is summarized as follows:

	2015 \$	2014 \$
Reserve for claims and related costs – beginning of period	13,460,000	15,345,000
Reinsurance recoverable – beginning of period	(6,581,000)	(9,140,000)
Net exposure – beginning of period	6,879,000	6,205,000
Claims paid	(870,119)	(1,828,827)
Related costs paid and accrued	(300,207)	(171,686)
Recoveries from members and third parties	155,386	1,819,109
	5,864,060	6,023,596
Provision for claims and related costs	(64,060)	855,404
Net exposure – end of period	5,800,000	6,879,000
Reserve for claims and related costs – end of period	12,400,000	13,460,000
Reinsurance recoverable – end of period	(6,600,000)	(6,581,000)
Net exposure – end of period	5,800,000	6,879,000

The discount rate applied by the actuary at December 31, 2015 is 2.205% (2014 – 2.905%). The undiscounted reserve balance at December 31, 2015 is \$11.6 million (2014 – \$12.8 million).

Claims which occurred between November 1, 2001 and October 31, 2007 are insured by a \$10,000,000 indemnity bond with the Society retaining the first \$1,000,000 in claims losses. Claims which occurred between November 1, 2007 and June 30, 2014 are insured by an indemnity bond of \$10,000,000 with a \$1,500,000 retention. 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.

## 7 Capital lease obligation

The Society's capital lease obligation is as follows:

	\$
2016	36,170
2017	24,462

Interest expense incurred on the lease for the year amounted to \$1,106 (2014 - \$3,031) at an annual interest rate of 8%.

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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## 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, revenue exceeded expenses of the Assurance Fund by \$529,642 and this amount, therefore, was added to the reserve (2014 – expenses and management fees exceeded revenue by \$1,004,838).

### Scholarship reserve

In the current period, revenue exceeded expenses by \$102,187 and this amount was, therefore, added to the reserve (2014 – \$150,594).

## 9 Pension plan

	<b>2015</b>	<b>2014</b>
	\$	\$
Registered pension plan accrued liability	632,886	790,814
Supplemental retirement plan accrued liability	1,744,075	1,529,098
	<u>2,376,961</u>	<u>2,319,912</u>

### a) Registered pension plan

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.

As of December 31, 2015, and on advice of the actuary, the details of the pension plan are as follows:

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Reconciliation of fair value of plan assets</b>		
Fair value of plan assets – beginning of period	3,319,772	3,068,829
Society contributions during period	70,660	69,059
Actual return on plan assets	320,683	357,432
Less benefits paid during period to retirees	(177,690)	(175,548)
	<u>3,533,425</u>	<u>3,319,772</u>
<b>Fair value of plan assets – end of period</b>		

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of period	4,110,586	3,678,654
Current service cost	118,204	101,689
Interest on accrued benefit obligation	157,112	169,340
Actuarial gain (loss) during period	(41,901)	336,451
Less benefits paid during period to retirees	(177,690)	(175,548)
	<u>4,166,311</u>	<u>4,110,586</u>
<b>Accrued benefit obligations – end of period</b>		
	(632,886)	(790,814)
<b>Plan deficit</b>		
<b>Pension cost</b>		
Current service cost	118,204	101,689
Finance cost	31,361	(4,056)
Re-measurements and other items	(236,833)	152,415
	<u>(87,268)</u>	<u>250,048</u>
<b>Pension cost recognized during period</b>		
<b>Accrued benefit asset</b>		
Beginning balance – Accrued benefit liability	(790,814)	(609,825)
Plus contributions in the period	70,660	69,059
Less pension cost recognized during period	87,268	(250,048)
	<u>(632,886)</u>	<u>(790,814)</u>
<b>Ending balance – Accrued benefit liability</b>		

## Plan assets

The plan assets are invested in a balanced fund that consists of the following asset mix:

	<b>2015</b>	<b>2014</b>
Fixed income	33%	31%
Foreign equities	46%	44%
Canadian equity	14%	17%
Cash and cash equivalents	7%	8%
	<u>100%</u>	<u>100%</u>

## Assumptions

The actuary used the following rates in their calculations:

	<b>2015</b>	<b>2014</b>
Discount rate – beginning of period	3.85%	4.65%
Discount rate – end of period	3.85%	3.85%
Expected long-term rate of return on plan assets	3.85%	5.75%
Rate of compensation increase	3.50%	3.50%

# The Law Society of Alberta

## Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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### a) 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 whose earnings are above the Canada Revenue Agency maximum. The SRP was closed to management employees commencing employment after May 31, 2006.

	2015 \$	2014 \$
<b>Reconciliation of the accrued benefit obligation</b>		
Accrued benefit obligation – beginning of period	1,529,098	1,252,458
Current service cost	76,469	63,498
Interest on accrued benefit obligation	59,827	59,100
Actuarial loss during period	105,467	180,505
Less benefits paid during period for retirees	(26,786)	(26,463)
<b>Accrued benefit obligation – end of period</b>	<b>1,744,075</b>	<b>1,529,098</b>
<b>Pension cost</b>		
Current service cost	76,469	63,498
Interest cost on accrued benefit obligation	59,827	59,100
Net actuarial losses	105,467	180,505
<b>Pension cost recognized during period</b>	<b>241,763</b>	<b>303,103</b>
<b>Accrued benefit liability</b>		
Beginning balance – accrued benefit liability	(1,529,098)	(1,252,458)
Plus contributions in the period	26,786	26,463
Less pension cost recognized during period	(241,763)	(303,103)
<b>Ending balance – Accrued benefit liability</b>	<b>(1,744,075)</b>	<b>(1,529,098)</b>

### 10 Commitments

The Society is committed to leased office space and equipment until 2021. In addition, the Society has annual funding commitments to related organizations. Future minimum lease payments and funding commitments are as follows:

	\$
2016	4,412,700
2017	2,625,570
2018	2,208,679
2019	2,216,024
2020 and thereafter	616,048

# The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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## 11 Related party transactions

The Alberta Lawyers Insurance Association (the Association) is a wholly-owned subsidiary of the Society. Share capital of \$20 consists of four common shares; three shares issued to the Society and one share issued to the person who holds the office of Executive Director of the Society, as bare trustee for 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 also 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.

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 have 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 claim.

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, 2015 is as follows:

	2015 \$	2014 \$
Assets	129,614,184	119,962,584
Liabilities	<u>(91,737,059)</u>	<u>(85,165,085)</u>
Net assets	<u>37,877,125</u>	<u>34,797,499</u>
Revenue	39,491,766	32,680,023
Expenses	<u>(33,228,952)</u>	<u>(34,145,735)</u>
<b>Excess (deficiency) of revenue over expenses before the following:</b>	6,262,814	(1,465,712)
Unrealized (loss) gain on fair market value of investments	<u>(3,183,188)</u>	<u>2,265,024</u>
<b>Excess of revenue over expenses</b>	<u>3,079,626</u>	<u>799,312</u>
Cash flows from operating activities	8,498,796	(10,130,668)
Cash flows from investing activities	<u>(7,145,209)</u>	<u>9,489,281</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>1,353,587</u>	<u>(641,387)</u>

# The Law Society of Alberta

## Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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During the year the Society received \$2,208,000 from the Association for management fees (2014 – \$1,860,000). As at December 31, 2015, \$1,935 was due from the Association (2014 – \$10,336) 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 expenses of \$256,562 were incurred with these law firms (2014 - \$344,070). 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 designed to mitigate interest rate risk.

Included in investments are fixed income bonds in the amount of \$5,224,918. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	2015 Interest rate Range	2015 Market value \$	2014 Interest rate Range	2014 Market value \$
Within five years	0.78–6.145%	1,612,024	1.82 – 5.68%	2,117,650
Greater than five years but less than ten years	0.75-4.60%	2,515,804	2.40 – 4.15%	2,935,241
Greater than ten years	1.50-7.56%	<u>1,097,090</u>	3.45 – 4.70%	<u>824,961</u>
		<u>5,224,918</u>		<u>5,877,852</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 managed by engaging an investment manager for the long-term portfolio investments and by investing other funds in short term fixed rate products with high credit ratings.



# **The Law Society of Alberta**

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2015

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## **Credit risk**

The Society is not exposed to significant credit risk on any of its financial assets. The Society manages credit risk by maintaining bank accounts with reputable financial institutions and only investing in securities that are liquid, highly rated and traded in active markets. Accounts receivable are from lawyers and reputable, credit-worthy reinsurers.

## **Liquidity risk**

Investments are subject to liquidity risk if the Society is required to sell at a time the market for these investments is unfavourable or the investments are illiquid.

## **13 Subsequent event**

Subsequent to year end, the Law Society received \$2,027,855 from the carrier of the Assurance Fund indemnity bond for the 2013 policy year as a recovery of trust defalcation claims paid in excess of the annual \$1,500,000 retention level. The amount received was included in the Assurance Fund Accounts Receivable of \$2,260,586 at December 31, 2015.