

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2016



April 6, 2017

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, 2016 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, 2016 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

PricewaterhouseCoopers LLP
Suite 3100, 111 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2016

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2016 \$	2015 \$
Assets					
Current assets					
Cash and cash equivalents	6,602,703	1,329,800	266,954	8,199,457	7,941,925
Accounts receivable	406,823	748,613	4	1,155,440	2,919,510
Prepaid expenses	209,937	-	-	209,937	183,786
Due from related parties (note 11)	8,005	-	-	8,005	1,935
Interfund balances	4,014	(4,014)	-	-	-
	7,231,482	2,074,399	266,958	9,572,839	11,047,156
Investments (note 3)	644,652	7,902,186	1,503,058	10,049,896	8,633,481
Reinsurance recoverable (note 6)	-	9,051,000	-	9,051,000	6,600,000
Trust assets (note 4)	2,007,179	-	-	2,007,179	1,791,049
Capital assets (note 5)	2,545,009	-	-	2,545,009	3,183,809
	12,428,322	19,027,585	1,770,016	33,225,923	31,255,495
Liabilities					
Current liabilities					
Deferred revenue	5,901,351	-	-	5,901,351	6,035,931
Accounts payable and accrued liabilities	1,061,301	10,565	-	1,071,866	1,032,950
Capital lease obligation (note 7)	24,462	-	-	24,462	36,170
	6,987,114	10,565	-	6,997,679	7,105,051
Long-term liabilities					
Reserve for claims and related costs (note 6)	-	14,357,000	-	14,357,000	12,400,000
Trust liabilities (note 4)	2,007,179	-	-	2,007,179	1,791,049
Pension plan payable (note 9)	2,680,412	-	-	2,680,412	2,376,961
Capital lease obligation (note 7)	-	-	-	-	24,462
	4,687,591	14,357,000	-	19,044,591	16,592,472
	11,674,705	14,367,565	-	26,042,270	23,697,523
Fund balances					
Invested in capital assets	2,545,009	-	-	2,545,009	3,183,809
Restricted funds (note 8)					
Contingency reserve – internally restricted	-	4,660,020	-	4,660,020	4,354,061
Scholarship reserve – externally restricted	-	-	1,770,016	1,770,016	1,739,313
Unrestricted funds	(1,791,392)	-	-	(1,791,392)	(1,719,211)
	753,617	4,660,020	1,770,016	7,183,653	7,557,972
	12,428,322	19,027,585	1,770,016	33,225,923	31,255,495
Commitments (note 10)					

Approved by the Benchers

Original signed by A. Young, President

Bencher

Original signed by S. Corbett, Audit & Finance 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, 2016

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2016 \$	2015 \$
Revenue					
Practice fees	25,431,175	-	-	25,431,174	25,529,041
Investment income	91,482	383,832	76,944	552,258	1,540,021
Management fee (note 11)	2,861,658	-	-	2,861,658	2,208,000
Enrolment and application fees	539,623	-	-	539,623	564,285
Other	91,682	-	-	91,682	72,579
Fines and penalties	16,000	-	-	16,000	39,000
	<u>29,031,620</u>	<u>383,832</u>	<u>76,944</u>	<u>29,492,396</u>	<u>29,952,926</u>
Expenses					
Corporate costs					
Premises operating costs	2,261,744	-	-	2,261,744	2,229,327
General corporate costs	943,281	45,210	4,920	993,411	727,228
Amortization	1,429,336	-	-	1,429,336	1,319,580
Indemnity bond fees	-	-	-	-	154,321
Departmental costs					
Secretariat	1,849,490	-	-	1,849,490	1,747,115
Counsel	1,850,401	29,985	-	1,880,386	1,906,189
Trust safety	2,537,960	-	-	2,537,960	1,789,061
Conduct	2,737,857	-	-	2,737,857	2,292,607
Custodianships	993,763	-	-	993,763	923,180
Membership	1,806,261	-	-	1,806,261	1,667,040
Administration	1,117,525	-	-	1,117,525	1,183,314
Human resources	742,731	-	-	742,731	1,172,999
Business technology	2,842,451	-	-	2,842,451	2,807,835
Accounting	498,750	-	-	498,750	468,766
Professionalism & Policy	3,602,922	-	-	3,602,922	3,581,118
Investigations	1,333,292	-	-	1,333,292	1,528,463
Communications	934,515	-	-	934,515	733,110
Information management	505,705	-	-	505,705	468,788
Practice review	765,590	-	-	765,590	612,699
Tribunal	785,537	-	-	785,537	514,133
Governance	487,629	-	-	487,629	451,977
Provision for claims & related costs net (note 6)	-	(229,363)	-	(229,363)	(64,060)
Scholarships	-	-	20,000	20,000	20,000
	<u>30,026,740</u>	<u>(154,168)</u>	<u>24,920</u>	<u>29,897,492</u>	<u>28,234,790</u>
Excess of revenue over expenses for the year before other items	(995,120)	538,000	52,024	(405,096)	1,718,136
Other items:					
Unrealized loss on investments	(9,209)	(55,041)	(21,321)	(85,571)	(646,883)
Bar admission program cost recovery	-	-	-	-	500,550
Recovered costs	113,348	3,000	-	116,348	180,454
Interfund management fees	180,000	(180,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	(710,981)	305,959	30,703	(374,319)	1,752,257
Fund balance – beginning of year	<u>1,464,598</u>	<u>4,354,061</u>	<u>1,739,313</u>	<u>7,557,972</u>	<u>5,805,715</u>
Fund balance – end of year	<u>753,617</u>	<u>4,660,020</u>	<u>1,770,016</u>	<u>7,183,653</u>	<u>7,557,972</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, 2016

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2016 \$	2015 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	(710,981)	305,959	30,703	(374,319)	1,752,257
Items not affecting cash					
Amortization	1,429,336	-	-	1,429,336	1,319,580
Gain on sale of investments	-	(90,744)	(21,376)	(112,120)	(1,041,947)
Unrealized loss on investments	9,209	55,041	21,321	85,571	646,884
Provision for claims & related costs (note 6)	-	(229,363)	-	(229,363)	(64,060)
	727,564	40,893	30,648	799,105	2,612,714
Change in non-cash working capital items	(4,566)	1,604,580	-	1,600,014	272,573
Claims and related costs paid – net of recoveries (note 6)	-	(264,637)	-	(264,637)	(1,014,940)
Increase in pension plan payable	303,451	-	-	303,451	57,049
	1,026,449	1,380,836	30,648	2,437,933	1,927,396
Investing activities					
Proceeds on disposal of investments	-	710,000	60,000	770,000	9,527,126
Purchase of investments	(19,547)	(2,035,924)	(104,394)	(2,159,865)	(7,948,321)
Purchase of capital assets	(790,536)	-	-	(790,536)	(1,521,459)
	(810,083)	(1,325,924)	(44,394)	(2,180,401)	57,346
Increase (decrease) in cash and cash equivalents	216,366	54,912	(13,746)	257,532	1,984,742
Cash and cash equivalents – beginning of the year	6,386,337	1,274,888	280,700	7,941,925	5,957,183
Cash and cash equivalents – end of the year	6,602,703	1,329,800	266,954	8,199,457	7,941,925
Cash and cash equivalents comprised of:					
Cash	585,475	36,484	26,250	648,209	1,039,329
Cash equivalents	6,017,228	1,293,316	240,704	7,551,248	6,902,596
	6,602,703	1,329,800	266,954	8,199,457	7,941,925
Interest received	91,711	147,520	27,725	266,956	325,579

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, 2016

1 General

The Law Society of Alberta (the Law Society) operates under the authority of the *Legal Profession Act*, Chapter L-8, Revised Statutes of Alberta 2000. The Law 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 Law 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 Law Society has the following funds:

General Fund

The General Fund is an unrestricted fund which provides for the administration and governance of the Law Society's regulatory operations.

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 Law 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, 2016

Financial Instruments

The Law 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 Law 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 Law 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 Law Society follows the deferral method for revenue recognition. The Law 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 Law 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 Law Society seeks to limit exposure to losses on large trust account misappropriation claims 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, 2016

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 consists 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%
Adjudicator training program	33-1/3%
Leasehold improvements	Over lease term (ranging from 2 to 10 years)

Post-employment benefits

The Law 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 Law 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 Law Society uses a roll-forward technique to estimate the accrued benefit obligation.

Income taxes

The Law 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 Law 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 Law 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, 2016

3 Investments

The Law 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 Law 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 Law Society's investments consist of bonds and equity investments.

Investments at December 31 are as follows:

	2016 \$	2015 \$
Bonds denominated in Canadian dollars:		
Corporate	2,391,936	1,824,038
Municipal government	-	83,333
Provincial government	1,727,851	1,523,566
Federal government	1,992,255	1,712,936
T-Bills	36,894	81,045
	<hr/>	<hr/>
	6,148,935	5,224,918
Equities denominated in Canadian dollars:		
	3,900,961	3,408,563
	<hr/>	<hr/>
	10,049,896	8,633,481
	<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 Law Society. In 2016, approximately \$422,000 (2015 – \$519,000) was received. The Law 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 2016 fiscal period totalled approximately \$154,300 (2015 – \$181,000).

5 Capital assets

			2016	2015
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	793,255	468,085	325,170	430,934
Computer	3,440,176	2,284,434	1,155,742	1,641,944
Leasehold improvements	1,817,728	902,292	915,436	1,110,931
Adjudicator training program	178,393	29,732	148,661	-
	<hr/>	<hr/>	<hr/>	<hr/>
	6,229,552	3,684,543	2,545,009	3,183,809
	<hr/>	<hr/>	<hr/>	<hr/>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2016

Included in furniture and equipment are assets acquired through a capital lease with a net book value of \$26,645 (2015 - \$69,974).

6 Reserve for claims and related costs

The change in reinsurance recoverable is summarized as follows:

	2016 \$	2015 \$
Reinsurance recoverable – beginning of period	6,600,000	6,581,000
(Decrease) Increase due to claims experience	2,451,000	19,000
Reinsurance recoverable – end of period	<u>9,051,000</u>	<u>6,600,000</u>

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

	2016 \$	2015 \$
Reserve for claims and related costs – beginning of period	<u>12,400,000</u>	<u>13,460,000</u>
Claims paid	(533,082)	(870,119)
Related costs paid and accrued	(230,093)	(300,207)
Recoveries from members and third parties	498,538	155,386
	<u>(264,637)</u>	<u>(1,014,940)</u>
(Decrease) Increase due to claims experience	<u>2,221,637</u>	<u>(45,060)</u>
Reserve for claims and related costs – end of period	<u>14,357,000</u>	<u>12,400,000</u>
Case reserves (indemnity and external expenses)	10,180,000	5,064,000
Incurred but not reported claim reserve (indemnity and external expenses)	2,638,000	5,921,000
Provision for internal claim administration	37,000	104,000
Provision for adverse deviation	<u>1,502,000</u>	<u>1,311,000</u>
Reserve for claims and related costs	<u>14,357,000</u>	<u>12,400,000</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, 2016

In summary, the net exposure is summarized as follows:

	2016 \$	2015 \$
Reserve for claims and related costs – beginning of period	12,400,000	13,460,000
Reinsurance recoverable – beginning of period	(6,600,000)	(6,581,000)
Net exposure – beginning of period	5,800,000	6,879,000
Claims paid	(533,082)	(870,119)
Related costs paid and accrued	(230,093)	(300,207)
Recoveries from members and third parties	498,538	155,386
	5,535,363	5,864,060
Provision for claims and related costs	(229,363)	(64,060)
Net exposure – end of period	5,306,000	5,800,000
Reserve for claims and related costs – end of period	14,357,000	12,400,000
Reinsurance recoverable – end of period	(9,051,000)	(6,600,000)
Net exposure – end of period	5,306,000	5,800,000

The discount rate applied by the actuary at December 31, 2016 is 2.400% (2015 – 2.205%). The undiscounted reserve balance at December 31, 2016 is \$13.46 million (2015 – \$11.6 million).

Claims which occurred between November 1, 2001 and October 31, 2007 are insured by a \$10,000,000 indemnity bond with the Law 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 through the Trust Safety Insurance program administered by the Alberta Lawyers Insurance Association.

7 Capital lease obligation

The Law Society's capital lease obligation is as follows:

	\$
2017	24,462

Interest expense incurred on the lease for the year amounted to \$644 (2015 - \$1,106) at an annual interest rate of 8%.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2016

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 \$305,959 and this amount, therefore, was added to the reserve (2015 – revenue exceeded expenses by \$529,642).

Scholarship reserve

In the current period, revenue exceeded expenses by \$30,703 and this amount was, therefore, added to the reserve (2015 – \$102,187).

9 Pension plan

	2016 \$	2015 \$
Registered pension plan accrued liability	729,744	632,886
Supplemental retirement plan accrued liability	1,950,668	1,744,075
	<u>2,680,412</u>	<u>2,376,961</u>

a) Registered pension plan

The Law 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, 2016, and on advice of the actuary, the details of the pension plan are as follows:

	2016 \$	2015 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	3,533,425	3,319,772
Law Society contributions during period	74,580	70,660
Actual return on plan assets	123,502	320,683
Less benefits paid during period to retirees	(178,791)	(177,690)
Fair value of plan assets – end of period	<u>3,552,716</u>	<u>3,533,425</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2016

	2016 \$	2015 \$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	4,166,311	4,110,586
Current service cost	122,140	118,204
Interest on accrued benefit obligation	159,312	157,112
Actuarial gain (loss) during period	13,488	(41,901)
Less benefits paid during period to retirees	(178,791)	(177,690)
	<u>4,282,460</u>	<u>4,166,311</u>
Accrued benefit obligations – end of period		
	(729,744)	(632,886)
Plan deficit		
Pension cost		
Current service cost	122,140	118,204
Finance cost	25,281	31,361
Re-measurements and other items	24,017	(236,833)
	<u>171,438</u>	<u>(87,268)</u>
Pension cost recognized during period		
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(632,886)	(790,814)
Plus contributions in the period	74,580	70,660
Less pension cost recognized during period	(171,438)	87,268
	<u>(729,744)</u>	<u>(632,886)</u>
Ending balance – Accrued benefit liability		

Plan assets

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

	2016	2015
Fixed income	34%	33%
Foreign equities	44%	46%
Canadian equity	16%	14%
Cash and cash equivalents	6%	7%
	<u>100%</u>	<u>100%</u>

Assumptions

The actuary used the following rates in their calculations:

	2016	2015
Discount rate – beginning of period	3.85%	3.85%
Discount rate – end of period	3.70%	3.85%
Expected long-term rate of return on plan assets	3.70%	3.85%
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, 2016

b) Supplemental Retirement Plan

The Law 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.

	2016	2015
	\$	\$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	1,744,075	1,529,098
Current service cost	87,262	76,469
Interest on accrued benefit obligation	68,308	59,827
Actuarial loss during period	77,975	105,467
Less benefits paid during period for retirees	(26,952)	(26,786)
	<u>1,950,668</u>	<u>1,744,075</u>
Accrued benefit obligation – end of period		
Pension cost		
Current service cost	87,262	76,469
Interest cost on accrued benefit obligation	68,308	59,827
Net actuarial losses	77,975	105,467
	<u>233,545</u>	<u>241,763</u>
Pension cost recognized during period		
Accrued benefit liability		
Beginning balance – accrued benefit liability	(1,744,075)	(1,529,098)
Plus contributions in the period	26,952	26,786
Less pension cost recognized during period	(233,545)	(241,763)
	<u>(1,950,668)</u>	<u>(1,744,075)</u>
Ending balance – Accrued benefit liability		

10 Commitments

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

	\$
2017	4,132,185
2018	2,679,060
2019	2,233,166
2020	594,615
2021 and thereafter	50,417

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2016

11 Related party transactions

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

The Association administers a program under which each active member of the Law 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 Law 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, 2016 is as follows:

	2016 \$	2015 \$
Assets	133,990,470	129,614,184
Liabilities	<u>(106,729,925)</u>	<u>(91,737,059)</u>
Net assets	<u>27,260,545</u>	<u>37,877,125</u>
Revenue	34,480,455	38,796,966
Expenses	<u>(42,938,192)</u>	<u>(32,534,152)</u>
Excess (deficiency) of revenue over expenses before the following:	(8,457,737)	6,262,814
Unrealized (loss) gain on fair market value of investments	<u>(2,158,843)</u>	<u>(3,183,188)</u>
(Deficiency) excess of revenue over expenses	<u>(10,616,580)</u>	<u>3,079,626</u>
Cash flows from operating activities	1,422,437	8,498,796
Cash flows from investing activities	<u>(683,894)</u>	<u>(7,145,209)</u>
Increase (decrease) in cash and cash equivalents	<u>738,543</u>	<u>1,353,587</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2016

During the year the Law Society received \$2,674,000 from the Association for management fees (2015 – \$2,208,000) and \$187,700 (2015 - \$0) for risk management fees. As at December 31, 2016, \$8,005 was due from the Association (2015 – \$1,935) 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 Law Society in the normal course of business. During the year expenses of \$536,776 were incurred with these law firms (2015 - \$256,562). The Benchers are not involved in the retention of these firms.

12 Financial instruments

Interest rate risk

The Law Society is exposed to interest rate risk on its investments. The Law 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 \$6,148,935. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	December 31, 2016		December 31, 2015	
	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	0.87 – 5.65%	1,518,787	0.78 – 6.145%	1,612,024
Greater than five years but less than ten years	1.50 – 7.56%	3,135,957	0.75 – 4.60%	2,515,804
Greater than ten years	1.00 – 4.65%	1,494,191	1.50 – 7.56%	1,097,090
		<u>6,148,935</u>		<u>5,224,918</u>

Price risk

The investments of the Law Society are subject to price risk because changing interest rates impact the market value of the interest bearing 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, 2016

Credit risk

The Law Society is not exposed to significant credit risk on any of its financial assets. The Law 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

Liquidity risk is the risk that the Law Society will not be able to meet its financial obligations as they become due. The Law Society's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due. The Law Society's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and investing activities.