

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2020



Independent auditor's report

To the Directors of The Law Society of Alberta

Our opinion

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of Alberta (the Society) as at December 31, 2020 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.

What we have audited

The Society's non-consolidated financial statements comprise:

- the non-consolidated balance sheet as at December 31, 2020;
- the non-consolidated statement of revenue, expenses and changes in fund balances for the year then ended;
- the non-consolidated statement of cash flows for the year then ended; and
- the notes to the non-consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the non-consolidated financial statements* section of our report.

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

Independence

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of management and those charged with governance for the non-consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the non-consolidated financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

Auditor's responsibilities for the audit of the non-consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 15, 2021

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2020

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2020 \$	2019 \$
Assets					
Current assets					
Cash and cash equivalents	17,254,314	935,198	240,844	18,430,356	8,489,763
Accounts receivable	277,281	21	5	277,307	6,479,552
Prepaid expenses	356,776	-	-	356,776	351,848
	17,888,371	935,219	240,849	19,064,439	15,321,163
Investments (note 3)	1,557,932	8,893,219	1,916,308	12,367,459	11,428,831
Loan Receivable (note 4)	2,246,184	-	-	2,246,184	1,746,600
Reinsurance recoverable (note 7)	-	1,142,000	-	1,142,000	1,147,000
Trust assets (note 5)	2,251,708	-	-	2,251,708	2,348,946
Capital assets (note 6)	8,839,051	-	-	8,839,051	9,362,083
	32,783,246	10,970,438	2,157,157	45,910,841	41,354,623
Liabilities					
Current liabilities					
Deferred revenue	6,525,441	-	-	6,525,441	6,496,961
Accounts payable and accrued liabilities	1,754,107	22,898	21,076	1,798,081	3,230,884
Due to related parties (note 12)	290,348	-	-	290,348	152,250
	8,569,896	22,898	21,076	8,613,870	9,880,095
Long-term liabilities					
Reserve for claims and related costs (note 7)	-	7,187,000	-	7,187,000	7,278,000
Lease liability (note 10)	6,948,503	-	-	6,948,503	5,965,142
Trust liabilities (note 5)	2,251,708	-	-	2,251,708	2,348,946
Pension plan payable (note 9)	2,723,350	-	-	2,723,350	2,602,368
	11,923,561	7,187,000	-	19,110,561	18,194,456
	20,493,457	7,209,898	21,076	27,724,431	28,074,551
Fund balances					
Invested in capital assets	3,543,559	-	-	3,543,559	3,749,115
Restricted funds (note 8)					
Contingency reserve – internally restricted	-	3,760,540	-	3,760,540	3,267,647
Scholarship reserve – externally restricted	-	-	2,136,081	2,136,081	1,990,144
Unrestricted funds	8,746,230	-	-	8,746,230	4,273,166
	12,289,789	3,760,540	2,136,081	18,186,410	13,280,072
	32,783,246	10,970,438	2,157,157	45,910,841	41,354,623
Commitments (note 11)					

Approved by the Board

Darlene W. Scott, QC

President

Stacy Petriuk, QC

Chair of the Audit and Finance Committee

The Law Society of Alberta

Non-consolidated Statement of Revenue, Expenses and Changes in Fund Balances For the year ended December 31, 2020

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2020 \$	2019 \$
Revenue					
Practice fees	27,793,654	-	-	27,793,654	27,559,175
Management fee (note 12)	3,170,600	-	-	3,170,600	2,867,000
Investment income	191,487	527,659	121,488	840,634	874,587
Enrolment and application fees	654,490	-	-	654,490	777,120
Other	265,012	-	-	265,012	250,761
	<u>32,075,243</u>	<u>527,659</u>	<u>121,488</u>	<u>32,724,390</u>	<u>32,328,643</u>
Expenses					
Corporate costs					
Premises operating costs	1,790,505	-	-	1,790,505	2,465,334
Amortization	1,131,920	-	-	1,131,920	1,090,422
General corporate costs	354,259	50,170	6,300	410,729	774,879
Departmental costs					
Business Technology	3,601,262	-	-	3,601,262	3,585,969
Counsel	1,922,774	-	-	1,922,774	2,250,128
Policy	1,768,493	-	-	1,768,493	1,673,615
Governance	1,635,577	-	-	1,635,577	1,878,384
Early Intervention	1,377,698	-	-	1,377,698	1,343,644
Conduct	1,324,911	-	-	1,324,911	1,325,670
Investigations	1,322,597	-	-	1,322,597	1,454,030
Membership	1,130,572	-	-	1,130,572	1,100,920
Trust Safety	1,066,926	-	-	1,066,926	1,981,906
Accounting	1,012,230	-	-	1,012,230	999,110
Practice Management	986,024	-	-	986,024	989,561
Customer Service	791,063	-	-	791,063	870,301
Custodianships	663,012	-	-	663,012	737,676
Tribunal	659,402	-	-	659,402	664,172
Information Management	658,060	-	-	658,060	678,639
Communications	589,304	-	-	589,304	834,750
Human Resources	510,016	-	-	510,016	562,439
External funding	3,703,429	-	-	3,703,429	3,270,633
Provision for claims & related costs net (note 7)	-	185,164	-	185,164	2,485,405
Scholarships	-	-	40,000	40,000	20,000
	<u>28,000,034</u>	<u>235,334</u>	<u>46,300</u>	<u>28,281,668</u>	<u>33,037,587</u>
Excess (deficiency) of revenue over expenses for the year before other items	4,075,209	292,325	75,188	4,442,722	(708,944)
Other items:					
Unrealized gain on investments	20,956	368,568	70,749	460,273	781,206
Recovered costs	159,037	-	-	159,037	242,929
Interfund management fees	168,000	(168,000)	-	-	-
Excess of revenue over expenses for the year	4,423,202	492,893	145,937	5,062,032	315,191
Fund balance – beginning of year	8,022,281	3,267,647	1,990,144	13,280,072	13,086,841
Pension plan remeasurements and other items	(155,694)	-	-	(155,694)	(121,960)
Fund balance – end of year	<u>12,289,789</u>	<u>3,760,540</u>	<u>2,136,081</u>	<u>18,186,410</u>	<u>13,280,072</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, 2020

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2020 \$	2019 \$
Cash provided by (used in)					
Operating activities					
Excess of revenue over expenses for the period	4,423,202	492,893	145,937	5,062,032	315,191
Items not affecting cash					
Amortization	1,131,920	-	-	1,131,920	1,090,422
Gain on sale of investments	-	(66,761)	(23,498)	(90,259)	(102,206)
Unrealized gain on investments	(20,956)	(368,568)	(70,749)	(460,273)	(781,206)
Provision for claims & related costs (note 7)	-	185,164	-	185,164	2,485,405
Deferred rent	1,300,837	-	-	1,300,837	352,174
	<u>6,835,003</u>	<u>242,728</u>	<u>51,690</u>	<u>7,129,421</u>	<u>3,359,780</u>
Change in non-cash working capital items	3,999,292	93,665	21,075	4,114,032	847,020
Claims and related costs paid – net of recoveries (note 7)	-	(271,164)	-	(271,164)	(424,406)
Pension plan remeasurements and other items	(155,694)	-	-	(155,694)	(121,960)
Increase in pension plan payable	120,982	-	-	120,982	131,540
	<u>10,799,583</u>	<u>65,229</u>	<u>72,765</u>	<u>10,937,577</u>	<u>3,791,974</u>
Investing activities					
Proceeds on disposal of investments	-	215,500	35,000	250,500	868,000
Purchase of investments	(90,718)	(451,006)	(96,872)	(638,596)	(1,039,937)
Purchase of capital assets	(608,888)	-	-	(608,888)	(9,092,804)
	<u>(699,606)</u>	<u>(235,506)</u>	<u>(61,872)</u>	<u>(996,984)</u>	<u>(9,264,741)</u>
Increase (Decrease) in cash and cash equivalents	10,099,977	(170,277)	10,893	9,940,593	(5,472,767)
Cash and cash equivalents – beginning of the year	<u>7,154,337</u>	<u>1,105,475</u>	<u>229,951</u>	<u>8,489,763</u>	<u>13,962,530</u>
Cash and cash equivalents – end of the year	<u>17,254,314</u>	<u>935,198</u>	<u>240,844</u>	<u>18,430,356</u>	<u>8,489,763</u>
Cash and cash equivalents comprised of:					
Cash	948,975	46,462	8,822	1,044,259	609,326
Cash equivalents	16,305,339	888,736	232,022	17,426,097	7,880,437
	<u>17,254,314</u>	<u>935,198</u>	<u>240,844</u>	<u>18,430,356</u>	<u>8,489,763</u>
Interest received	191,487	308,696	65,619	565,802	630,037

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, 2020

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.

Comparative figures

Certain prior year figures have been reclassified to conform to current year's presentation.

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 Board, 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 funds that occurred after June 30, 2014. Claims for lawyer misappropriation that occur subsequent to June 30, 2014 are covered through the Misappropriation Indemnity Program administered by Alberta Lawyers Indemnity Association (formerly The Alberta Lawyers Insurance Association).

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

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.

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, and provincial 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 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 Law Society's financial records.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

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. 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 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	10%
Computer	20%
Adjudicator training program	33-1/3%
Leasehold improvements	Over the lease term (15 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 change in fund balances based upon an actuarial valuation.

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 Law Society measures the defined benefit obligation as of the balance sheet date using the most recently completed actuarial valuation prepared for accounting purposes.

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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

Donated services

A portion of the Law Society's work is dependent on the service of many volunteers, particularly the significant contribution of the Board and committees of the Board. 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.

3 Investments

The Law Society's investments are governed by a Statement of Investment Policies and Goals approved by the Board 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 at December 31, 2020 as follows:

	2020	2019
	\$	\$
Bonds denominated in Canadian dollars:		
Corporate	2,729,774	3,468,953
Provincial government	2,418,690	1,397,529
Federal government	2,628,671	2,248,317
T-Bills	-	99,487
	<hr/>	<hr/>
	7,777,135	7,214,286
Equities denominated in Canadian dollars	<hr/>	<hr/>
	4,590,324	4,214,545
	<hr/>	<hr/>
	12,367,459	11,428,831

4 Loans Receivable

The Law Society has agreed to participate with other Canadian law societies in a collective loan of \$2 million to the Canadian Legal Information Institute (CanLII), a wholly-owned subsidiary of the Federation of Law Societies of Canada. The loan is part of the financing for the purchase by CanLII of Lexum, a corporation providing support services to CanLII for the implementation of CanLII's legal information website. The Law Society's participation is \$361,494 (2019 - \$294,864) and includes interest earned. The loan has a five-year term with an annual interest rate of 4.74% compounded semi-annually and payable annually. The Law Society is also committed to provide \$63,973 in 2021 to finance the remaining portion of the acquisition.

The Law Society has agreed to provide financial support to the Canadian Centre for Professional Legal Education (CPLED) to cover the start-up costs related to the implementation of the new CPLED PREP program. The Law Society advanced \$395,086 (2019 - \$1,050,000) for a total of \$1.8M in financial support over the past three years. The annual interest rate is 4% compounded annually and is included in the loan balance. In 2020, the Law Society agreed to forgive \$72,000 in interest due within the June 30, 2021 loan repayment, of which \$36,000 was recorded in 2020.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

5 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 2020, approximately \$72,000 (2019 – \$245,000) was received. The Law Society holds the funds in trust for five years, refunds amounts to claimants as appropriate, and forwards any unclaimed funds, plus interest earned, 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 on the funds forwarded in each year. Amounts forwarded to the Alberta Law Foundation during the 2020 fiscal period totalled approximately \$233,200 (2019 – \$167,600).

The Law Society holds funds related to custodianship trust accounts. In 2020, the Law Society held trust funds in the amount of \$147,900 (2019 - \$83,000). Interest earned on these funds is paid to the Alberta Law Foundation.

6 Capital assets

			2020	2019
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Furniture and equipment	1,973,201	221,902	1,751,299	1,805,595
Computer	2,820,799	1,248,243	1,572,556	1,491,315
Leasehold improvements	5,923,115	420,029	5,503,086	6,024,957
Adjudicator training program	84,320	72,210	12,110	40,216
	<u>10,801,435</u>	<u>1,962,384</u>	<u>8,839,051</u>	<u>9,362,083</u>

7 Reinsurance recoverable and reserve for claims and related costs

The change in the reinsurance recoverable is summarized as follows:

	2020	2019
	\$	\$
Reinsurance recoverable – beginning of period	1,147,000	2,605,000
Decrease due to claims experience	(5,000)	(1,458,000)
	<u>1,142,000</u>	<u>1,147,000</u>

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

	2020	2019
	\$	\$
Reserve for claims and related costs – beginning of period	<u>7,278,000</u>	<u>6,675,000</u>
Claims paid	(248,088)	(654,895)
Related costs paid and accrued	(25,276)	(38,078)
Recoveries from members and third parties	2,200	268,568
	<u>(271,164)</u>	<u>(424,405)</u>
(Decrease) Increase due to claims experience	<u>180,164</u>	<u>1,027,405</u>

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

Reserve for claims and related costs – end of period	7,187,000	7,278,000
Case reserves (indemnity and external expenses)	2,586,000	3,090,000
Incurred but not reported claim reserve (indemnity and external expenses)	3,057,000	2,551,000
Provision for internal claim administration	416,000	324,000
Provision for adverse deviation	1,128,000	1,313,000
Reserve for claims and related costs	7,187,000	7,278,000

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

In summary, the net exposure is summarized as follows:

	2020	2019
	\$	\$
Reserve for claims and related costs – beginning of period	7,278,000	6,675,000
Reinsurance recoverable – beginning of period	(1,147,000)	(2,605,000)
Net exposure – beginning of period	6,131,000	4,070,000
Claims paid	(248,088)	(654,895)
Related costs paid and accrued	(25,276)	(38,078)
Recoveries from members and third parties	2,200	268,568
	5,859,836	3,645,595
Provision for claims and related costs	185,164	2,485,405
Net exposure – end of period	6,045,000	6,131,000
Reserve for claims and related costs – end of period	7,187,000	7,278,000
Reinsurance recoverable – end of period	(1,142,000)	(1,147,000)
Net exposure – end of period	6,045,000	6,131,000

The discount rate applied by the actuary at December 31, 2020 is 0.95% (2019 – 2.05%). The undiscounted reserve balance at December 31, 2020 is \$4.978 million (2019 – \$5.059 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 lawyer misappropriation that occur subsequent to June 30, 2014 are covered through the Misappropriation Indemnity program administered by Alberta Lawyers Indemnity Association (formerly The Alberta Lawyers Insurance Association).

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

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 \$492,893 and this amount, therefore, was added to the reserve (2019 – expenses exceeded revenue by \$1,721,007).

Scholarship reserve

In the current period, revenue exceeded expenses by \$145,937 and this amount, therefore, was added to the reserve (2019 – revenue exceeded expenses by \$187,553).

9 Pension plan

	2020 \$	2019 \$
Registered pension plan accrued liability	403,548	392,304
Supplemental retirement plan accrued liability	2,319,802	2,210,064
	<u>2,723,350</u>	<u>2,602,368</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, 2020, and on advice of the actuary, the details of the pension plan are as follows:

	2020 \$	2019 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	4,006,075	3,667,627
Law Society contributions during period	34,600	38,292
Actual return on plan assets	406,626	508,459
Less benefits paid during period to retirees	(214,858)	(208,303)
Fair value of plan assets – end of period	<u>4,232,443</u>	<u>4,006,075</u>
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	4,398,379	4,050,101
Current service cost	41,264	63,866
Interest on accrued benefit obligation	131,503	151,160
Actuarial (gain) during period	279,703	341,555
Less benefits paid during period to retirees	(214,858)	(208,303)
Accrued benefit obligations – end of period	<u>4,635,991</u>	<u>4,398,379</u>

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	\$	\$
Plan deficit	(403,548)	(392,304)
Pension cost		
Current service cost	41,264	63,866
Finance cost	12,067	15,020
Re-measurements and other items	(7,487)	(30,764)
	<hr/>	<hr/>
Pension cost recognized during period	45,844	48,122
	<hr/>	<hr/>
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(392,304)	(382,474)
Plus contributions in the period	34,600	38,292
Less pension cost recognized during period	(45,844)	(48,122)
	<hr/>	<hr/>
Ending balance – Accrued benefit liability	(403,548)	(392,304)

Plan assets

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

	2020	2019
Fixed income	33.0%	32.1%
Foreign equities	47.0%	45.0%
Canadian equity	16.0%	16.9%
Cash and cash equivalents	4.0%	6.0%
	<hr/>	<hr/>
	100%	100%

Assumptions

The actuary used the following rates in their calculations:

	2020	2019
Discount rate – beginning of period	3.05%	3.80%
Discount rate – end of period	2.40%	3.05%
Expected long-term rate of return on plan assets	2.40%	3.05%
Rate of compensation increase	3.5%	3.50%

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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

	2020 \$	2019 \$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	2,210,064	2,088,354
Current service cost	-	3,195
Interest on accrued benefit obligation	65,633	77,360
Actuarial (gain) during period	160,432	149,494
Less benefits paid during period for retirees	(116,327)	(108,339)
Accrued benefit obligation – end of period	2,319,802	2,210,064
Pension cost		
Current service cost	-	3,195
Interest cost on accrued benefit obligation	65,633	77,360
Net actuarial (gains)	160,432	149,494
Pension cost recognized during period	226,065	230,049
Accrued benefit liability		
Beginning balance – accrued benefit liability	2,210,064	(2,088,354)
Plus contributions in the period	116,327	108,339
Less pension cost recognized during period	(226,065)	(230,049)
Ending balance – Accrued benefit liability	(2,319,802)	(2,210,064)

10 Operating Lease

The Law Society has an operating lease for its premises for 15 years and 9 months effective November 7, 2019. Under the terms of the lease agreement, the minimum annual lease payment increases over the lease term. In addition, the lessor provided the Law Society with a tenant improvement allowance. This allowance is accounted for as a reduction of the lease expense over the term of the lease.

11 Commitments

The Law Society is committed to leased office space and equipment until 2035. In addition, the Law Society has annual funding commitments to related organizations. Future minimum lease payments and funding commitments are as follows:

	\$
2021	4,147,011
2022	2,468,523
2023	2,011,145
2024 and thereafter	26,036,421

12 Related party transactions

Alberta Lawyers Indemnity Association (formerly 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 Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

The Association administers a program under which active members of the Law Society in private practice (indemnified lawyers) have 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 indemnified lawyers have mandatory coverage for misappropriation from lawyer trust accounts (or Misappropriation Indemnity) of \$5,000,000 per occurrence, with a profession-wide annual aggregate limit of \$25,000,000.

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, 2020 is as follows:

	2020	2019
	\$	\$
Assets	213,213,550	201,233,014
Liabilities	<u>(149,820,461)</u>	<u>(138,470,729)</u>
Net assets	<u>63,393,089</u>	<u>62,762,285</u>
Revenue	36,176,722	46,455,283
Expenses	<u>(42,772,519)</u>	<u>(25,467,155)</u>
(Deficiency) excess of revenue over expenses before the following	(6,595,797)	20,988,128
Unrealized gain (loss) on fair market value of investments	<u>7,226,601</u>	<u>1,716,114</u>
Excess of revenue over expenses	<u>630,804</u>	<u>22,704,242</u>
Cash flows from operating activities	2,811,460	15,750,460
Cash flows from investing activities	<u>(8,584,475)</u>	<u>866,809</u>
(Decrease) increase in cash and cash equivalents	<u>(5,773,015)</u>	<u>16,617,269</u>

During the year the Law Society received \$2,846,600 from the Association for management fees (2019 – \$2,867,000). As at December 31, 2020, \$290,348 was due to the Association (2019 – \$152,250) and is non-interest bearing and due on demand. These transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

The elected Board 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 \$455 were incurred with these law firms (2019 - \$10,729). Board members are not involved in the retention of these firms.

13 Financial instruments

Market disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to the long-term implications. Such disruptions can adversely affect the financial instruments risks associated with the Association.

Interest rate risk

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2020

The Law Society is exposed to interest rate risk on its investments. The Law Society manages the interest rate risk on bonds by engaging an investment manager who is guided by the Statement of Investment Policies and Goals designed to mitigate interest rate risk.

Included in investments are bonds in the amount of \$7,777,135. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	December 31, 2020		December 31, 2019	
	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	1.25-4.29%	3,276,290	1.25 – 7.56%	2,813,838
Greater than five years but less than ten years	2.73-5.00%	2,184,457	1.90 – 5.75%	2,172,682
Greater than ten years	3.74-6.25%	2,316,388	2.00 – 6.35%	2,198,830
		<u>7,777,135</u>		<u>7,185,350</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 securities with high credit ratings.

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.