

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2022



Independent auditor's report

To the Benchers 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 Law Society) as at December 31, 2022 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 Law Society's non-consolidated financial statements comprise:

- the non-consolidated balance sheet as at December 31, 2022;
- 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 Law 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.

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

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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 Law 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 Law Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Law 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 Law 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 Law 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 Law 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 27, 2023

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2022

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2022 \$	2021 \$
Assets					
Current assets					
Cash and cash equivalents	2,835,408	189,072	46,627	3,071,107	17,153,683
Current portion of loan receivable (note 4)	650,007	-	-	650,007	222,000
Accounts receivable	529,641	438	4	530,083	607,398
Prepaid expenses	415,492	-	-	415,492	363,202
Accrued interest	83,505	-	-	83,505	-
Due from related parties (note 12)	6,014	-	-	6,014	20,081
	4,520,067	189,510	46,631	4,756,208	18,366,364
Investments (note 3)	17,471,448	6,866,562	1,853,042	26,191,052	13,900,584
Loan Receivable (note 4)	1,301,880	-	-	1,301,880	1,988,154
Reinsurance recoverable (note 7)	-	557,000	-	557,000	600,000
Trust assets (note 5)	1,590,773	-	-	1,590,773	1,830,035
Capital assets (note 6)	8,301,981	-	-	8,301,981	8,451,497
	33,186,149	7,613,072	1,899,673	42,698,894	45,136,634
Liabilities					
Current liabilities					
Deferred revenue	6,292,958	-	-	6,292,958	6,104,397
Accounts payable and accrued liabilities	1,948,765	21,500	20,944	1,991,209	2,415,720
Interfund balances	117	(117)	-	-	-
	8,241,840	21,383	20,944	8,284,167	8,520,117
Long-term liabilities					
Reserve for claims and related costs (note 7)	-	4,316,000	-	4,316,000	5,940,000
Lease liability (note 10)	6,758,259	-	-	6,758,259	6,890,584
Trust liabilities (note 5)	1,590,773	-	-	1,590,773	1,830,035
Pension plan payable (note 9)	1,483,346	-	-	1,483,346	2,070,116
	9,832,378	4,316,000	-	14,148,378	16,730,735
	18,074,218	4,337,383	20,944	22,432,545	25,250,852
Fund balances					
Invested in capital assets	3,732,729	-	-	3,732,729	3,482,744
Restricted funds (note 8)					
Contingency reserve – internally restricted	-	3,275,689	-	3,275,689	3,577,053
Scholarship reserve – externally restricted			1,878,729	1,878,729	2,190,169
Unrestricted funds	11,379,202	-	-	11,379,202	10,635,816
	15,111,931	3,275,689	1,878,729	20,266,349	19,885,782
	33,186,149	7,613,072	1,899,673	42,698,894	45,136,634
Commitments (note 11)					

Approved by the Benchers

Bill Hendsbee, KC
President

Ryan Anderson, KC
Chair of the Audit and Finance Committee

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

The Law Society of Alberta

Non-consolidated Statement of Revenue, Expenses and Changes in Fund Balances For the year ended December 31, 2022

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2022 \$	2021 \$
Revenue					
Practice fees	26,495,049	-	-	26,495,049	26,336,046
Management fee (note 12)	3,401,685	-	-	3,401,685	3,096,970
Investment income	460,332	418,695	114,964	993,991	909,488
Enrolment and application fees	774,240	-	-	774,240	849,850
Other	175,406	-	-	175,406	250,722
	<u>31,306,712</u>	<u>418,695</u>	<u>114,964</u>	<u>31,840,371</u>	<u>31,443,076</u>
Expenses					
Corporate costs					
Premises operating costs	1,839,464	-	-	1,839,464	1,824,453
Amortization	1,177,436	-	-	1,177,436	1,086,533
General corporate costs	435,493	22,346	4,945	462,784	405,690
Departmental costs					
Business Technology	4,079,707	-	-	4,079,707	4,373,062
Counsel	2,098,783	-	-	2,098,783	2,028,769
Governance	1,848,666	-	-	1,848,666	1,620,950
Early Intervention	1,621,513	-	-	1,621,513	1,455,556
Trust Safety	1,452,088	-	-	1,452,088	1,363,316
Conduct	1,426,384	-	-	1,426,384	1,288,298
Investigations	1,381,126	-	-	1,381,126	1,268,914
Membership	1,300,179	-	-	1,300,179	1,139,563
Accounting	1,079,003	-	-	1,079,003	1,009,937
Education	1,053,436	-	-	1,053,436	973,010
Customer Service	1,014,268	-	-	1,014,268	679,325
Custodianships	990,670	-	-	990,670	822,979
Practice Management	726,394	-	-	726,394	651,355
Human Resources	717,303	-	-	717,303	624,293
Practice Advisors	711,037	-	-	711,037	676,755
Tribunal	682,468	-	-	682,468	660,920
Communications	661,377	-	-	661,377	643,005
Policy	552,041	-	-	552,041	623,296
External funding (note 13)	4,083,410	-	-	4,083,410	4,642,335
Provision for claims & related costs net (note 7)	-	(768,594)	-	(768,594)	405,875
Scholarships	-	-	60,000	60,000	60,000
	<u>30,932,246</u>	<u>(746,248)</u>	<u>64,945</u>	<u>30,250,943</u>	<u>30,328,189</u>
Excess of revenue over expenses for the year before other items	374,466	1,164,943	50,019	1,589,428	1,114,887
Other items:					
Unrealized (loss) gain on investments	(180,761)	(1,382,307)	(361,459)	(1,924,527)	(247,375)
Recovered costs	158,786	-	-	158,786	193,828
Interfund management fees	84,000	(84,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	436,491	(301,364)	(311,440)	(176,313)	1,061,340
Fund balance – beginning of year	14,118,560	3,577,053	2,190,169	19,885,782	18,186,410
Pension plan remeasurements and other items	556,880	-	-	556,880	638,032
Fund balance – end of year	<u>15,111,931</u>	<u>3,275,689</u>	<u>1,878,729</u>	<u>20,266,349</u>	<u>19,885,782</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, 2022

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2022 \$	2021 \$
Cash provided by (used in)					
Operating activities					
Excess of revenue over expenses for the period	436,491	(301,364)	(311,440)	(176,313)	1,061,340
Items not affecting cash					
Amortization	1,177,436	-	-	1,177,436	1,086,533
(Gain) loss on sale of investments	121,741	(192,318)	(53,694)	(124,271)	(398,620)
Unrealized (gain) loss on investments	180,761	1,382,307	361,459	1,924,527	247,375
Provision for claims & related costs (note 7)	-	(768,594)	-	(768,594)	405,875
Deferred rent	230,796	-	-	230,796	305,201
	<u>2,147,225</u>	<u>120,031</u>	<u>(3,675)</u>	<u>2,263,581</u>	<u>2,707,704</u>
Change in non-cash working capital items	(389,819)	(15,324)	19,926	(385,217)	(777,440)
Claims and related costs paid – net of recoveries (note 7)	-	(812,406)	-	(812,406)	(1,110,875)
Pension plan remeasurements and other items	556,880	-	-	556,880	638,032
Decrease in pension plan payable	(586,770)	-	-	(586,770)	(653,234)
	<u>1,727,516</u>	<u>(707,699)</u>	<u>16,251</u>	<u>1,036,068</u>	<u>804,187</u>
Investing activities					
Proceeds on disposal of investments	21,441,541	1,558,887	252,325	23,252,753	2,556,500
Purchase of investments	(35,561,536)	(1,378,493)	(403,448)	(37,343,477)	(3,938,380)
Purchase of capital assets	(1,027,920)	-	-	(1,027,920)	(698,980)
	<u>(15,147,915)</u>	<u>180,394</u>	<u>(151,123)</u>	<u>(15,118,644)</u>	<u>(2,080,860)</u>
(Decrease) Increase in cash and cash equivalents	<u>(13,420,399)</u>	<u>(527,305)</u>	<u>(134,872)</u>	<u>(14,082,576)</u>	<u>(1,276,673)</u>
Cash and cash equivalents – beginning of the year	<u>16,255,807</u>	<u>716,377</u>	<u>181,499</u>	<u>17,153,683</u>	<u>18,430,356</u>
Cash and cash equivalents – end of the year	<u>2,835,408</u>	<u>189,072</u>	<u>46,627</u>	<u>3,071,107</u>	<u>17,153,683</u>
Cash and cash equivalents comprised of:					
Cash	566,026	37,734	849	604,609	590,731
Cash equivalents	2,269,382	151,338	45,778	2,466,498	16,562,952
	<u>2,835,408</u>	<u>189,072</u>	<u>46,627</u>	<u>3,071,107</u>	<u>17,153,683</u>
Interest received	463,971	139,350	37,783	641,104	261,830

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

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

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.

Effective July 1, 2021 amendments to the Assurance Fund rules were approved by the Law Society's Benchers. For misappropriation of funds that occurred prior to July 1, 2014, a claimant may submit a claim to the Assurance Fund. For misappropriation of funds on or after July 1, 2014, but prior to July 1, 2021, a claimant may submit a claim to the Assurance Fund that are not fully satisfied under all available indemnity and the claimant has exhausted all litigation and collection remedies against the member. For misappropriation after July 1, 2021 a claimant may submit a claim to the Assurance Fund that are not fully satisfied under all available indemnity and the claimant has exhausted all litigation and collection remedies

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For the year ended December 31, 2022

against the member. The maximum amount payable for any claim shall be limited to \$100,000 per claimant per member, \$250,000 annual aggregate per member, and \$500,000 annual aggregate for the profession.

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 14 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 income 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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

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.

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Notes to Non-consolidated Financial Statements

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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, 2022 as follows:

	2022 \$	2021 \$
Bonds denominated in Canadian dollars:		
Corporate	8,108,842	3,920,003
Provincial government	6,091,470	3,788,707
Federal government	5,477,000	973,862
T-Bills	19,339	763,219
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	19,696,651	9,445,791
Equities denominated in Canadian dollars		
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	6,494,401	4,454,793
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	26,191,052	13,900,584

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 \$428,007 (2021 - \$428,028) 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 provided financial support totaling \$1.8 million over a three-year period from 2018 to 2020 to the Canadian Centre for Professional Legal Education (CPLED) to cover the start-up costs related to the implementation of the CPLED PREP program. The annual interest rate is 4% compounded annually and is included in the loan receivable balance.

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 2022, approximately \$270,300 (2021 - \$269,000) was received. The Law Society holds the funds in trust for five years, refunds amounts to claimants as appropriate, and forwards any

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For the year ended December 31, 2022

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 2022 fiscal period totalled approximately \$391,000 (2021 – \$485,200).

The Law Society holds funds related to custodianship trust accounts. In 2022, the Law Society held trust funds in the amount of \$12,700 (2021 - \$19,100). Interest earned on these funds is paid to the Alberta Law Foundation.

6 Capital assets

			2022	2021
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Furniture and equipment	1,982,519	618,707	1,363,812	1,552,988
Computer	2,940,938	1,301,521	1,639,417	1,618,734
Leasehold improvements	5,923,115	1,181,775	4,741,340	5,136,214
Adjudicator training program	58,882	32,009	26,873	3,476
CPD and Articling Program	181,322	50,549	130,773	140,085
Transforming Us	399,766	-	399,766	-
	11,486,542	3,184,561	8,301,981	8,451,497

7 Reinsurance recoverable and reserve for claims and related costs

The change in the reinsurance recoverable is summarized as follows:

	2022	2021
	\$	\$
Reinsurance recoverable – beginning of period	600,000	1,142,000
Decrease due to claims experience	(43,000)	(542,000)
Reinsurance recoverable – end of period	557,000	600,000

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

	2022	2021
	\$	\$
Reserve for claims and related costs – beginning of period	5,940,000	7,187,000
Claims paid	(728,896)	(1,101,421)
Related costs paid and accrued	(67,657)	(48,992)
Recoveries from members and third parties	(15,851)	39,538
	(812,404)	(1,110,875)
(Decrease) Increase due to claims experience	(811,594)	(136,125)
Reserve for claims and related costs – end of period	4,316,000	5,940,000

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For the year ended December 31, 2022

	2022 \$	2021 \$
Case reserves (indemnity and external expenses)	1,322,000	2,027,000
Incurred but not reported claim reserve (indemnity and external expenses)	2,099,000	2,604,000
Provision for internal claim administration	185,000	374,000
Provision for adverse deviation	710,000	935,000
Reserve for claims and related costs	4,316,000	5,940,000

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:

	2022 \$	2021 \$
Reserve for claims and related costs – beginning of period	5,940,000	7,187,000
Reinsurance recoverable – beginning of period	(600,000)	(1,142,000)
Net exposure – beginning of period	5,340,000	6,045,000
Claims paid	(728,896)	(1,101,421)
Related costs paid and accrued	(67,657)	(48,992)
Recoveries from members and third parties	(15,851)	39,538
	4,527,594	4,934,125
Provision for claims and related costs	(768,594)	405,875
Net exposure – end of period	3,759,000	5,340,000
Reserve for claims and related costs – end of period	4,316,000	5,940,000
Reinsurance recoverable – end of period	(557,000)	(600,000)
Net exposure – end of period	3,759,000	5,340,000

The discount rate applied by the actuary at December 31, 2022 is 4.20% (2021 – 1.55%). The undiscounted reserve balance at December 31, 2022 is \$3.186 million (2021 – \$4.474 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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

8 Restricted funds

Contingency reserve

The Contingency reserve is for future liabilities that may arise as a result of significant adverse claims experience. In the current period, expenses exceeded revenue by \$301,364 and this amount, therefore, was deducted from the reserve (2021 – expenses exceeded revenue by \$183,487).

Scholarship reserve

In the current period, expenses exceeded revenue by \$311,440 and this amount, therefore, was deducted from the reserve (2021 – revenue exceeded expenses by \$54,088).

9 Pension plan

	2022 \$	2021 \$
Registered pension plan accrued (asset) liability	(265,484)	(102,732)
Supplemental retirement plan accrued liability	1,748,830	2,172,848
	<u>1,483,346</u>	<u>2,070,116</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, 2022, and on advice of the actuary, the details of the pension plan are as follows:

	2022 \$	2021 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	4,406,430	4,232,443
Law Society contributions during period	34,600	35,211
Actual return on plan assets	(496,419)	354,301
Less benefits paid during period to retirees	(209,743)	(215,525)
Fair value of plan assets – end of period	<u>3,734,868</u>	<u>4,406,430</u>
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	4,303,698	4,635,991
Current service cost	67,821	74,430
Interest on accrued benefit obligation	120,633	109,571
Actuarial (gain) loss during period	(813,025)	(300,769)
Less benefits paid during period to retirees	(209,743)	(215,525)
Accrued benefit obligations – end of period	<u>3,469,384</u>	<u>4,303,698</u>

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

	2022	2021
	\$	\$
Plan surplus (deficit)	265,484	102,732
Pension cost		
Current service cost	67,821	74,430
Finance cost	(2,454)	10,156
Re-measurements and other items	(193,519)	(555,655)
	<hr/>	<hr/>
Pension cost recognized during period	(128,152)	(471,069)
	<hr/>	<hr/>
Accrued benefit asset		
Beginning balance – Accrued benefit liability	102,732	(403,548)
Plus contributions in the period	34,600	35,211
Less pension cost recognized during period	128,152	471,069
	<hr/>	<hr/>
Ending balance – Accrued benefit asset (liability)	265,484	102,732

Plan assets

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

	2022	2021
Fixed income	33.8%	30.4%
Foreign equities	40.8%	48.4%
Canadian equity	19.9%	19.9%
Cash and cash equivalents	5.5%	1.3%
	<hr/>	<hr/>
	100%	100%

Assumptions

The actuary used the following rates in their calculations:

	2022	2021
Discount rate – beginning of period	2.85%	2.40%
Discount rate – end of period	5.05%	2.85%
Expected long-term rate of return on plan assets	5.05%	2.85%
Rate of compensation increase	3.50%	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, 2022

	2022 \$	2021 \$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	2,172,848	2,319,802
Current service cost	-	-
Interest on accrued benefit obligation	60,239	54,275
Actuarial (gain) loss during period	(365,857)	(84,541)
Less benefits paid during period for retirees	(118,400)	(116,688)
Accrued benefit obligation – end of period	1,748,830	2,172,848
Pension cost		
Current service cost	-	-
Interest cost on accrued benefit obligation	60,239	54,275
Net actuarial (gains) loss	(365,857)	(84,541)
Pension cost recognized during period	(305,618)	(30,266)
Accrued benefit liability		
Beginning balance – accrued benefit liability	2,172,848	2,319,802
Plus contributions in the period	118,400	116,688
Less pension cost recognized during period	305,618	30,266
Ending balance – Accrued benefit liability	(1,748,830)	(2,172,848)

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:

	\$
2023	4,555,960
2024	2,594,545
2025	2,002,464
2026 and thereafter	21,994,711

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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

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 of money or other property entrusted to them (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 June 30, 2022 is as follows:

	June 30, 2022	Jan 1 to June 30, 2021
	\$	\$
Assets	218,739,595	226,973,594
Liabilities	<u>(179,608,067)</u>	<u>(159,424,269)</u>
Net assets	<u>39,131,528</u>	<u>67,549,305</u>
Revenue	36,564,411	10,774,161
Expenses	<u>26,620,924</u>	<u>(9,380,505)</u>
Excess (deficiency) of revenue over expenses before the following	9,943,487	1,393,656
Unrealized gain (loss) on fair market value of investments	<u>(38,361,284)</u>	<u>2,762,580</u>
Excess of revenue over expenses	<u>(28,417,797)</u>	<u>4,156,236</u>
Cash flows from operating activities	9,670,457	8,261,400
Cash flows from investing activities	<u>(13,705,022)</u>	<u>(2,134,094)</u>
(Decrease) increase in cash and cash equivalents	<u>(4,034,565)</u>	<u>6,127,306</u>

During the year, the Law Society received \$2,969,885 from the Association for management fees (2021 – \$2,719,800). As at December 31, 2022, \$6,014 was due from the Association (2021 – \$20,081 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 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 \$127,179 were incurred with these law firms (2021 - \$237). Board members are not involved in the retention of these firms.

13 External Funding

The Law Society provides external funding to organizations that support Alberta lawyers including: Alberta Law Libraries, Continuing Professional Legal Education (CPLED), Assist, Pro Bono Law Alberta, Federation of Law Society of Canada, CanLII, Legal Archives Society of Alberta, and Alberta Law Review. In 2022, total funding provided was \$4,083,410 (2021 - \$4,642,335).

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2022

14 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 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 \$19,696,651 (2021 - \$9,445,791). The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	December 31, 2022		December 31, 2021	
	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	0.50-5.30%	13,668,911	1.10-3.75%	3,411,820
Greater than five years but less than ten years	0.50-6.25%	2,688,645	1.50-4.49%	2,932,918
Greater than ten years	1.75-5.75%	<u>3,339,045</u>	1.90-6.25%	<u>3,101,053</u>
		<u>19,696,651</u>		<u>9,445,791</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.