

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2017

DRAFT – for discussion purposes



March xx, 2018

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 as at December 31, 2017 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.

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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.

Chartered Professional Accountants

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2017

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2017 \$	2016 \$
Assets					
Current assets					
Cash and cash equivalents	10,014,829	1,405,320	252,280	11,672,429	8,199,457
Accounts receivable	454,937	121,044	4	575,985	1,155,440
Prepaid expenses	215,648	-	-	215,648	209,937
Due from related parties (note 10)	17,016	-	-	17,016	8,005
	10,702,430	1,526,364	252,284	12,481,078	9,572,839
Investments (note 3)	657,444	8,272,542	1,592,263	10,522,249	10,049,896
Reinsurance recoverable (note 6)	-	8,741,000	-	8,741,000	9,051,000
Trust assets (note 4)	2,038,826	-	-	2,038,826	2,007,179
Capital assets (note 5)	1,765,884	-	-	1,765,884	2,545,009
	15,164,584	18,539,906	1,844,547	35,549,037	33,225,923
Liabilities					
Current liabilities					
Deferred revenue	6,211,738	-	-	6,211,738	5,901,351
Accounts payable and accrued liabilities	1,161,121	30,720	-	1,191,841	1,071,866
Interfund balances	60,211	(60,211)	-	-	-
Capital lease obligation	-	-	-	-	24,462
	7,433,070	(29,491)	-	7,403,579	6,997,679
Long-term liabilities					
Reserve for claims and related costs (note 6)	-	13,915,000	-	13,915,000	14,357,000
Trust liabilities (note 4)	2,038,826	-	-	2,038,826	2,007,179
Pension plan payable (note 8)	2,542,730	-	-	2,542,730	2,680,412
	4,581,556	13,915,000	-	18,496,556	19,044,591
	12,014,626	13,885,509	-	25,900,135	26,042,270
Fund balances					
Invested in capital assets	1,765,884	-	-	1,765,884	2,545,009
Restricted funds (note 7)					
Contingency reserve – internally restricted	-	4,654,397	-	4,654,397	4,660,020
Scholarship reserve – externally restricted	-	-	1,844,547	1,844,547	1,770,016
Unrestricted funds	1,384,074	-	-	1,384,074	(1,791,392)
	3,149,958	4,654,397	1,844,547	9,648,902	7,183,653
	15,164,584	18,539,906	1,844,547	35,549,037	33,225,923
Commitments (note 9)					

Approved by the Board

President

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 Fund Balances

For the year ended December 31, 2017

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2017 \$	2016 \$
Revenue					
Practice fees	26,279,948	-	-	26,279,948	25,431,175
Investment income	105,758	417,123	73,778	596,659	552,258
Management fee (note 10)	3,340,475	-	-	3,340,475	2,861,658
Enrolment and application fees	577,862	-	-	577,862	539,623
Other	115,127	-	-	115,127	91,682
Fines and penalties	25,500	-	-	25,500	16,000
	<u>30,444,670</u>	<u>417,123</u>	<u>73,778</u>	<u>30,935,571</u>	<u>29,492,396</u>
Expenses					
Corporate costs					
Premises operating costs	2,292,331	-	-	2,292,331	2,261,744
General corporate costs	447,713	48,777	4,969	501,459	993,411
Amortization	1,313,174	-	-	1,313,174	1,429,336
Departmental costs					
Secretariat	2,033,690	-	-	2,033,690	1,849,490
Counsel	1,830,775	37,970	-	1,868,745	1,880,386
Trust safety	1,685,988	-	-	1,685,988	2,537,960
Conduct	1,324,082	-	-	1,324,082	2,737,857
Custodianships	884,273	-	-	884,273	993,763
Membership	1,742,590	-	-	1,742,590	1,806,261
Administration	1,129,165	-	-	1,129,165	1,117,525
Human resources	629,789	-	-	629,789	742,731
Business technology	2,939,375	-	-	2,939,375	2,842,451
Accounting	522,872	-	-	522,872	498,750
Professionalism & Policy	3,746,578	-	-	3,746,578	3,602,922
Investigations	1,459,921	-	-	1,459,921	1,333,292
Communications	674,691	-	-	674,691	934,515
Information management	545,281	-	-	545,281	505,705
Early intervention	1,235,862	-	-	1,235,862	-
Practice review	912,964	-	-	912,964	765,590
Tribunal	509,328	-	-	509,328	785,537
Governance	445,315	-	-	445,315	487,629
Provision for claims & related costs net (note 6)	-	400,268	-	400,268	(229,363)
Scholarships	-	-	40,000	40,000	20,000
	<u>28,305,757</u>	<u>487,015</u>	<u>44,969</u>	<u>28,837,741</u>	<u>29,897,492</u>
Excess of revenue over expenses for the year before other items	2,138,913	(69,892)	28,809	2,097,830	(405,096)
Other items:					
Unrealized gain (loss) on investments	(4,360)	208,269	45,722	249,631	(85,571)
Recovered costs	117,788	-	-	117,788	116,348
Interfund management fees	144,000	(144,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	<u>2,396,341</u>	<u>(5,623)</u>	<u>74,531</u>	<u>2,465,249</u>	<u>(374,319)</u>
Fund balance – beginning 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>
Fund balance – end of year	<u>3,149,958</u>	<u>4,654,397</u>	<u>1,844,547</u>	<u>9,648,902</u>	<u>7,183,653</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, 2017

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2017 \$	2016 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	2,396,341	(5,623)	74,531	2,465,249	(374,319)
Items not affecting cash					
Amortization	1,313,174	-	-	1,313,174	1,429,336
Gain on sale of investments	-	(132,088)	(19,483)	(151,571)	(112,120)
Unrealized loss (gain) on investments	4,360	(208,269)	(45,722)	(249,631)	85,571
Provision for claims & related costs (note 6)	-	400,268	-	400,268	(229,363)
	3,713,875	54,288	9,326	3,777,489	799,105
Change in non-cash working capital items	387,208	583,498	-	970,706	1,600,014
Claims and related costs paid – net of recoveries (note 6)	-	(532,268)	-	(532,268)	(264,637)
(Decrease) increase in pension plan payable	(137,682)	-	-	(137,682)	303,451
	3,963,401	105,518	9,326	4,078,245	2,437,933
Investing activities					
Proceeds on disposal of investments	-	637,000	58,000	695,000	770,000
Purchase of investments	(17,152)	(666,998)	(82,000)	(766,150)	(2,159,865)
Purchase of capital assets	(534,123)	-	-	(534,123)	(790,536)
	(551,275)	(29,998)	(24,000)	(605,273)	(2,180,401)
Increase (decrease) in cash and cash equivalents	3,412,126	75,520	(14,674)	3,472,972	257,532
Cash and cash equivalents – beginning of the year	6,602,703	1,329,800	266,954	8,199,457	7,941,925
Cash and cash equivalents – end of the year	10,014,829	1,405,320	252,280	11,672,429	8,199,457
Cash and cash equivalents comprised of:					
Cash	536,251	67,498	26,819	630,568	648,209
Cash equivalents	9,478,578	1,337,822	225,461	11,041,861	7,551,248
	10,014,829	1,405,320	252,280	11,672,429	8,199,457
Interest received	105,758	133,077	24,770	263,605	266,956

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, 2017

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 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 misappropriation that occur subsequent to June 30, 2014 are covered through 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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2017

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.

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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2017

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.

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 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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2017

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, 2017 as follows:

	2017 \$	2016 \$
Bonds denominated in Canadian dollars:		
Corporate	2,740,608	2,391,935
Provincial government	1,448,408	1,727,851
Federal government	2,147,530	1,992,255
T-Bills	13,335	36,894
	6,349,881	6,148,935
Equities denominated in Canadian dollars	4,172,368	3,900,961
	10,522,249	10,049,896

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 2017, approximately \$413,000 (2016 – \$422,000) 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 2017 fiscal period totalled approximately \$347,200 (2015 – \$154,300).

5 Capital assets

	2017			2016
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	760,918	569,152	191,766	325,170
Computer	3,351,905	2,551,117	800,788	1,155,742
Leasehold improvements	1,820,900	1,180,445	640,455	915,436
Adjudicator training program	243,911	111,036	132,875	148,661
	6,177,634	4,411,750	1,765,884	2,545,009

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For the year ended December 31, 2017

6 Reinsurance recoverable and reserve for claims and related costs

The change in the reinsurance recoverable is summarized as follows:

	2017 \$	2016 \$
Reinsurance recoverable – beginning of period	9,051,000	6,600,000
(Decrease) Increase due to claims experience	(310,000)	2,451,000
Reinsurance recoverable – end of period	8,741,000	9,051,000

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

	2017 \$	2016 \$
Reserve for claims and related costs – beginning of period	14,357,000	12,400,000
Claims paid	(336,624)	(533,082)
Related costs paid and accrued	(200,444)	(230,093)
Recoveries from members and third parties	4,800	498,538
	(532,268)	(264,637)
(Decrease) Increase due to claims experience	90,268	2,221,637
Reserve for claims and related costs – end of period	13,915,000	14,357,000
Case reserves (indemnity and external expenses)	7,588,000	10,180,000
Incurred but not reported claim reserve (indemnity and external expenses)	4,917,000	2,638,000
Provision for internal claim administration	35,000	37,000
Provision for adverse deviation	1,375,000	1,502,000
Reserve for claims and related costs	13,915,000	14,357,000

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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2017

In summary, the net exposure is summarized as follows:

	2017 \$	2016 \$
Reserve for claims and related costs – beginning of period	14,357,000	12,400,000
Reinsurance recoverable – beginning of period	(9,051,000)	(6,600,000)
Net exposure – beginning of period	5,306,000	5,800,000
Claims paid	(336,624)	(533,082)
Related costs paid and accrued	(200,444)	(230,093)
Recoveries from members and third parties	4,800	498,538
	4,773,732	5,535,363
Provision for claims and related costs	400,268	(229,363)
Net exposure – end of period	5,174,000	5,306,000
Reserve for claims and related costs – end of period	13,915,000	14,357,000
Reinsurance recoverable – end of period	(8,741,000)	(9,051,000)
Net exposure – end of period	5,174,000	5,306,000

The discount rate applied by the actuary at December 31, 2017 is 1.85% (2016 – 2.40%). The undiscounted reserve balance at December 31, 2017 is \$12.813 million (2016 – \$13.46 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 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 of the Assurance Fund by \$5,623 and this amount, therefore, reduced the reserve (2016 – revenue exceeded expenses by \$305,959).

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For the year ended December 31, 2017

Scholarship reserve

In the current period, revenue exceeded expenses by \$74,531 and this amount was, therefore, added to the reserve (2016 – revenue exceeded expenses by \$30,703).

8 Pension plan

	2017 \$	2016 \$
Registered pension plan accrued liability	472,593	729,744
Supplemental retirement plan accrued liability	2,070,137	1,950,668
	<u>2,542,730</u>	<u>2,680,412</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, 2017, and on advice of the actuary, the details of the pension plan are as follows:

	2017 \$	2016 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	3,552,716	3,533,425
Law Society contributions during period	76,680	74,580
Actual return on plan assets	284,440	123,502
Less benefits paid during period to retirees	(180,222)	(178,791)
Fair value of plan assets – end of period	<u>3,733,614</u>	<u>3,552,716</u>
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	4,282,460	4,166,311
Current service cost	124,749	122,140
Interest on accrued benefit obligation	157,425	159,312
Actuarial (gain) loss during period	(178,205)	13,488
Less benefits paid during period to retirees	(180,222)	(178,791)
Accrued benefit obligations – end of period	<u>4,206,207</u>	<u>4,282,460</u>
Plan deficit	(472,593)	(729,744)

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For the year ended December 31, 2017

	2017 \$	2016 \$
Pension cost		
Current service cost	124,749	122,140
Finance cost	27,890	25,281
Re-measurements and other items	(333,110)	24,017
Pension cost recognized during period	(180,471)	171,438
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(729,744)	(632,886)
Plus contributions in the period	76,680	74,580
Less pension cost recognized during period	180,471	(171,438)
Ending balance – Accrued benefit liability	(472,593)	(729,744)

Plan assets

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

	2017	2016
Fixed income	30.5%	34%
Foreign equities	44.0%	44%
Canadian equity	16.5%	16%
Cash and cash equivalents	9.0%	6%
	100%	100%

Assumptions

The actuary used the following rates in their calculations:

	2017	2016
Discount rate – beginning of period	3.70%	3.85%
Discount rate – end of period	3.35%	3.70%
Expected long-term rate of return on plan assets	3.35%	3.70%
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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2017

	2017 \$	2016 \$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	1,950,668	1,744,075
Current service cost	94,811	87,262
Interest on accrued benefit obligation	73,426	68,308
Actuarial (gain) loss during period	(21,601)	77,975
Less benefits paid during period for retirees	(27,167)	(26,952)
Accrued benefit obligation – end of period	2,070,137	1,950,668
Pension cost		
Current service cost	94,811	87,262
Interest cost on accrued benefit obligation	73,426	68,308
Net actuarial (gains) losses	(21,601)	77,975
Pension cost recognized during period	146,636	233,545
Accrued benefit liability		
Beginning balance – accrued benefit liability	(1,950,668)	(1,744,075)
Plus contributions in the period	27,167	26,952
Less pension cost recognized during period	(146,636)	(233,545)
Ending balance – Accrued benefit liability	(2,070,137)	(1,950,668)

9 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:

	\$
2018	4,168,241
2019	2,251,047
2020	603,556
2021 and thereafter	50,417

10 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 active members of the Law Society in private practice (insured 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 insured lawyers have mandatory coverage for misappropriation from

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For the year ended December 31, 2017

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, 2017 is as follows:

	2017 \$	2016 \$
Assets	142,471,898	133,990,470
Liabilities	<u>(118,168,611)</u>	<u>(106,729,925)</u>
Net assets	<u>24,303,287</u>	<u>27,260,545</u>
Revenue	37,414,147	34,480,455
Expenses	<u>(37,553,970)</u>	<u>(42,938,192)</u>
Excess (deficiency) of revenue over expenses before the following:	(139,823)	(8,457,737)
Unrealized gain (loss) on fair market value of investments	<u>1,182,565</u>	<u>(2,158,843)</u>
(Deficiency) excess of revenue over expenses	<u>1,042,742</u>	<u>(10,616,580)</u>
Cash flows from operating activities	2,896,570	1,422,437
Cash flows from investing activities	<u>(932,162)</u>	<u>(683,894)</u>
Increase (decrease) in cash and cash equivalents	<u>1,964,408</u>	<u>738,543</u>

During the year the Law Society received \$3,040,000 from the Association for management fees (2016 – \$2,674,000) and \$303,475 (2016 - \$187,700) for risk management fees. As at December 31, 2017, \$15,483 was due from the Association (2016 – \$8,005) 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 \$233,912 were incurred with these law firms (2016 - \$536,776). Board members are not involved in the retention of these firms.

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11 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 \$6,349,881. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	December 31, 2017		December 31, 2016	
	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	1.25 – 7.56%	2,070,849	0.87 – 5.65%	1,518,787
Greater than five years but less than ten years	1.00 – 4.86%	2,774,750	1.50 – 7.56%	3,135,957
Greater than ten years	2.80 – 4.65%	1,504,282	1.00 – 4.65%	1,494,191
		<u>6,349,881</u>		<u>6,148,935</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.

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12 Subsequent event

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 \$219,336 and this amount was advanced subsequent to year end. 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 for the next three years to finance the remaining portion of the acquisition.