

The Law Society of Alberta

Non-consolidated Financial Statements
December 31, 2018

DRAFT – for discussion purposes



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, 2018 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, 2018;
- the non-consolidated statement of revenue, expenses and 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 a summary of 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.

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.

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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.

Chartered Professional Accountants

Calgary, Alberta
April 25, 2019

DRAFT

The Law Society of Alberta

Non-consolidated Balance Sheet

As at December 31, 2018

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2018 \$	2017 \$
Assets					
Current assets					
Cash and cash equivalents	12,747,868	972,135	242,527	13,962,530	11,672,429
Accounts receivable	626,026	780,934	4	1,406,964	575,985
Prepaid expenses	236,465	-	-	236,465	215,648
Due from related parties (note 11)	-	-	-	-	17,016
Interfund balances	431	(492)	61	-	-
	13,610,790	1,752,577	242,592	15,605,959	12,481,078
Investments (note 3)	1,488,406	7,325,077	1,559,999	10,373,482	10,522,249
Loan Receivable (note 4)	583,195	-	-	583,195	-
Reinsurance recoverable (note 7)	-	2,605,000	-	2,605,000	8,741,000
Trust assets (note 5)	2,233,205	-	-	2,233,205	2,038,826
Capital assets (note 6)	1,359,700	-	-	1,359,700	1,765,884
	19,275,296	11,682,654	1,802,591	32,760,541	35,549,037
Liabilities					
Current liabilities					
Deferred revenue	6,315,501	-	-	6,315,501	6,211,738
Accounts payable and accrued liabilities	1,938,422	19,000	-	1,957,422	1,191,841
Due to related parties (note 11)	21,744	-	-	21,744	-
Capital lease obligation	-	-	-	-	-
	8,275,667	19,000	-	8,294,667	7,403,579
Long-term liabilities					
Reserve for claims and related costs (note 7)	-	6,675,000	-	6,675,000	13,915,000
Trust liabilities (note 5)	2,233,205	-	-	2,233,205	2,038,826
Pension plan payable (note 9)	2,470,828	-	-	2,470,828	2,542,730
	4,704,033	6,675,000	-	11,379,033	18,496,556
	12,979,700	6,694,000	-	19,673,700	25,900,135
Fund balances					
Invested in capital assets	1,359,700	-	-	1,359,700	1,765,884
Restricted funds (note 8)					
Contingency reserve – internally restricted	-	4,988,654	-	4,988,654	4,654,397
Scholarship reserve – externally restricted	-	-	1,802,591	1,802,591	1,844,547
Unrestricted funds	4,935,896	-	-	4,935,896	1,384,074
	6,295,596	4,988,654	1,802,591	13,086,841	9,648,902
Commitments (note 10)	19,275,296	11,682,654	1,802,591	32,760,541	35,549,037

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, 2018

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2018 \$	2017 \$
Revenue					
Practice fees	26,986,106	-	-	26,986,106	26,279,948
Management fee (note 10)	3,490,072	-	-	3,490,072	3,340,475
Investment income	255,565	480,430	106,805	842,800	596,659
Enrolment and application fees	784,960	-	-	784,960	577,862
Other	115,870	-	-	115,870	140,627
	<u>31,632,573</u>	<u>480,430</u>	<u>106,805</u>	<u>32,219,808</u>	<u>30,935,571</u>
Expenses					
Corporate costs					
Premises operating costs	2,300,127	-	-	2,300,127	2,292,331
General corporate costs	719,087	49,114	5,014	773,215	501,459
Amortization	1,057,869	-	-	1,057,869	1,313,174
Departmental costs					
Secretariat	1,862,617	-	-	1,862,617	2,033,690
Counsel & Conduct	3,211,114	125,027	-	3,336,141	3,192,827
Trust safety	2,278,091	-	-	2,278,091	1,685,988
Custodianships	576,106	-	-	576,106	884,273
Membership	1,459,636	-	-	1,459,636	1,742,590
Administration	1,308,158	-	-	1,308,158	1,129,165
Human resources	693,513	-	-	693,513	629,789
Business technology	2,972,658	-	-	2,972,658	2,939,375
Accounting	654,108	-	-	654,108	522,872
Professionalism & Policy	4,019,639	-	-	4,019,639	3,746,578
Investigations	1,451,631	-	-	1,451,631	1,459,921
Communications	775,650	-	-	775,650	674,691
Information management	602,600	-	-	602,600	545,281
Early intervention	1,096,648	-	-	1,096,648	1,235,862
Practice review	906,231	-	-	906,231	912,964
Tribunal	455,205	-	-	455,205	509,328
Governance	549,858	-	-	549,858	445,315
Provision for claims & related costs net (note 7)	-	(553,086)	-	(553,086)	400,268
Scholarships	-	-	60,000	60,000	40,000
	<u>28,950,546</u>	<u>(378,945)</u>	<u>65,014</u>	<u>28,636,615</u>	<u>28,837,741</u>
Excess of revenue over expenses for the year before other items	2,682,027	859,375	41,791	3,583,193	2,097,830
Other items:					
Unrealized gain (loss) on investments	(7,945)	(369,117)	(83,747)	(460,809)	249,631
Recovered costs	315,556	-	-	315,556	117,788
Interfund management fees	156,000	(156,000)	-	-	-
Excess (deficiency) of revenue over expenses for the year	3,145,638	334,258	(41,956)	3,437,940	2,465,249
Fund balance – beginning of year	3,149,958	4,654,396	1,844,547	9,648,901	7,183,653
Fund balance – end of year	6,295,596	4,988,654	1,802,591	13,086,841	9,648,902

The Law Society of Alberta
 Non-consolidated Statement of Cash Flows
For the year ended December 31, 2018

	General Fund \$	Assurance Fund \$	Viscount Bennett Trust Fund \$	2018 \$	2017 \$
Cash provided by (used in)					
Operating activities					
Excess (deficiency) of revenue over expenses for the period	3,145,638	334,258	(41,956)	3,437,940	2,465,249
Items not affecting cash					
Amortization	1057,869	-	-	1,057,869	1,313,174
Gain on sale of investments	-	(180,502)	(42,678)	(223,180)	(151,571)
Unrealized loss (gain) on investments	7,945	369,117	83,747	460,809	(249,631)
Provision for claims & related costs (note 7)	-	(553,086)	-	(553,086)	400,268
	4,211,452	(30,213)	(887)	4,180,352	3,777,489
Change in non-cash working capital items	84,080	(610,907)	(61)	(526,888)	970,706
Claims and related costs paid – net of recoveries (note 7)	-	(550,914)	-	(550,914)	(532,268)
(Decrease) in pension plan payable	(71,902)	-	-	(71,902)	(137,682)
	4,223,630	(1,192,034)	(948)	3,030,648	4,078,245
Investing activities					
Proceeds on disposal of investments	-	1,115,000	82,200	1,197,200	695,000
Purchase of investments	(838,906)	(356,151)	(91,005)	(1,286,062)	(766,150)
Purchase of capital assets	(651,685)	-	-	(651,685)	(534,123)
	(1,490,591)	758,849	(8,805)	(740,547)	(605,273)
Increase (decrease) in cash and cash equivalents	2,733,039	(433,185)	(9,753)	2,290,101	3,472,972
Cash and cash equivalents – beginning of the year	10,014,829	1,405,320	252,280	11,672,429	8,199,457
Cash and cash equivalents – end of the year	12,747,868	972,135	242,527	13,962,530	11,672,429
Cash and cash equivalents comprised of:					
Cash	374,252	91,087	4,938	470,277	630,568
Cash equivalents	12,373,616	881,048	237,589	13,492,253	11,041,861
	12,747,868	972,135	242,527	13,962,530	11,672,429
Interest received	255,565	129,463	27,688	412,716	263,605

The Law Society of Alberta

Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

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 misappropriation that occur subsequent to June 30, 2014 are covered through the Trust Safety Insurance program administered by the Alberta Lawyers Insurance Association.

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Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

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.

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Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

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	20%
Furniture and equipment under capital lease	20%
Computer	33-1/3%
Adjudicator training program	33-1/3%
Leasehold improvements	Over the lease term

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 Law 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.

The Law Society of Alberta

Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

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, 2017 as follows:

	2018 \$	2017 \$
Bonds denominated in Canadian dollars:		
Corporate	2,784,986	2,740,608
Provincial government	1,863,513	1,448,408
Federal government	2,192,611	2,147,530
T-Bills	15,084	13,335
	6,856,194	6,349,881
Equities denominated in Canadian dollars	<hr/> 3,517,288	<hr/> 4,172,368
	<hr/> 10,373,482	<hr/> 10,522,249

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 \$219,336 and this amount was advanced during 2018. 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.

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 2.0 program. The Law Society advanced \$354,914 in 2018 and has committed to provide a total of \$1.8M in financial support over the next two years. No interest will be charged on the loan until repayment of the loan begins in 2021. At that time an annual interest rate of 4% will be charged.

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Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

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 2018, approximately \$359,000 (2017 – \$413,000) 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 2018 fiscal period totalled approximately \$169,800 (2017 – \$347,200).

6 Capital assets

		2018	2017
	Cost \$	Accumulated amortization \$	Net \$
Furniture and equipment	521,534	417,832	103,702
Computer	2,519,520	1,765,276	754,244
Leasehold improvements	1,872,681	1,461,444	411,237
Adjudicator training program	302,329	211,812	90,517
	<hr/> 5,216,064	<hr/> 3,856,364	<hr/> 1,359,700
			1,765,884

7 Reinsurance recoverable and reserve for claims and related costs

The change in the reinsurance recoverable is summarized as follows:

	2018 \$	2017 \$
Reinsurance recoverable – beginning of period	8,741,000	9,051,000
Decrease due to claims experience	<hr/> (6,136,000)	<hr/> (310,000)
Reinsurance recoverable – end of period	<hr/> 2,605,000	<hr/> 8,741,000

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

	2018 \$	2017 \$
Reserve for claims and related costs – beginning of period	13,915,000	14,357,000
Claims paid	(1,000,259)	(336,624)
Related costs paid and accrued	(214,055)	(200,444)
Recoveries from members and third parties	663,400	4,800
	<hr/> (550,914)	<hr/> (532,268)
(Decrease) Increase due to claims experience	<hr/> (6,689,086)	<hr/> 90,268
Reserve for claims and related costs – end of period	6,675,000	13,915,000

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Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

Case reserves (indemnity and external expenses)	2,738,000	7,588,000
Incurred but not reported claim reserve (indemnity and external expenses)	3,199,000	4,917,000
Provision for internal claim administration	33,000	35,000
Provision for adverse deviation	705,000	1,375,000
Reserve for claims and related costs	6,675,000	13,915,000

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:

	2018	2017
	\$	\$
Reserve for claims and related costs – beginning of period	13,915,000	14,357,000
Reinsurance recoverable – beginning of period	<u>(8,741,000)</u>	<u>(9,051,000)</u>
Net exposure – beginning of period	5,174,000	5,306,000
Claims paid	(1,000,259)	(336,624)
Related costs paid and accrued	(214,055)	(200,444)
Recoveries from members and third parties	<u>663,400</u>	<u>4,800</u>
	4,623,086	4,773,732
Provision for claims and related costs	<u>(553,086)</u>	<u>400,268</u>
Net exposure – end of period	<u>4,070,000</u>	<u>5,174,000</u>
Reserve for claims and related costs – end of period	6,675,000	13,915,000
Reinsurance recoverable – end of period	<u>(2,605,000)</u>	<u>(8,741,000)</u>
Net exposure – end of period	<u>4,070,000</u>	<u>5,174,000</u>

The discount rate applied by the actuary at December 31, 2018 is 2.30% (2017 – 1.85%). The undiscounted reserve balance at December 31, 2018 is \$6.093 million (2017 – \$12.813 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.

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Notes to Non-consolidated Financial Statements

For the year ended December 31, 2018

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 \$334,258 and this amount was, therefore, added to the reserve (2017 – expenses exceeded revenue by \$5,623).

Scholarship reserve

In the current period, expenses exceeded revenue by \$41,956 and this amount, therefore, reduced the reserve (2017 – revenue exceeded expenses by \$74,531).

9 Pension plan

	2018 \$	2017 \$
Registered pension plan accrued liability	382,474	472,593
Supplemental retirement plan accrued liability	<u>2,088,354</u>	<u>2,070,137</u>
	<u>2,470,828</u>	<u>2,542,730</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, 2018, and on advice of the actuary, the details of the pension plan are as follows:

	2018 \$	2017 \$
Reconciliation of fair value of plan assets		
Fair value of plan assets – beginning of period	3,733,614	3,552,716
Law Society contributions during period	75,300	76,680
Actual return on plan assets	14,392	284,440
Less benefits paid during period to retirees	<u>(155,679)</u>	<u>(180,222)</u>
Fair value of plan assets – end of period	<u>3,667,627</u>	<u>3,733,614</u>
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	4,206,207	4,282,460
Current service cost	129,991	124,749
Interest on accrued benefit obligation	140,478	157,425
Actuarial (gain) during period	<u>(270,896)</u>	<u>(178,205)</u>
Less benefits paid during period to retirees	<u>(155,679)</u>	<u>(180,222)</u>
Accrued benefit obligations – end of period	<u>4,050,101</u>	<u>4,206,207</u>
Plan deficit	<u>(382,474)</u>	<u>(472,593)</u>

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Notes to Non-consolidated Financial Statements For the year ended December 31, 2018

	2018 \$	2017 \$
Pension cost		
Current service cost	129,991	124,749
Finance cost	16,748	27,890
Re-measurements and other items	<u>(161,558)</u>	<u>(333,110)</u>
Pension cost recognized during period	<u>(14,819)</u>	<u>(180,471)</u>
Accrued benefit asset		
Beginning balance – Accrued benefit liability	(472,593)	(729,744)
Plus contributions in the period	75,300	76,680
Less pension cost recognized during period	<u>14,819</u>	<u>180,471</u>
Ending balance – Accrued benefit liability	<u>(382,474)</u>	<u>(472,593)</u>

Plan assets

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

	2018	2017
Fixed income	32.7%	30.5%
Foreign equities	44.7%	44.0%
Canadian equity	17.3%	16.5%
Cash and cash equivalents	<u>5.3%</u>	<u>9.0%</u>
	<u>100%</u>	<u>100%</u>

Assumptions

The actuary used the following rates in their calculations:

	2018	2017
Discount rate – beginning of period	3.35%	3.70%
Discount rate – end of period	3.80%	3.35%
Expected long-term rate of return on plan assets	3.80%	3.35%
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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	2018	2017
	\$	\$
Reconciliation of the accrued benefit obligation		
Accrued benefit obligation – beginning of period	2,070,137	1,950,668
Current service cost	98,630	94,811
Interest on accrued benefit obligation	70,610	73,426
Actuarial (gain) during period	(127,615)	(21,601)
Less benefits paid during period for retirees	(23,408)	(27,167)
Accrued benefit obligation – end of period	2,088,354	2,070,137
Pension cost		
Current service cost	98,630	94,811
Interest cost on accrued benefit obligation	70,610	73,426
Net actuarial (gains)	(127,615)	(21,601)
Pension cost recognized during period	41,625	146,636
Accrued benefit liability		
Beginning balance – accrued benefit liability	(2,070,137)	(1,950,668)
Plus contributions in the period	23,408	27,167
Less pension cost recognized during period	(41,625)	(146,636)
Ending balance – Accrued benefit liability	(2,088,354)	(2,070,137)

10 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:

	\$
2019	3,951,020
2020	1,264,113
2021	2,074,367
2022 and thereafter	36,688,982

11 Related party transactions

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

The Association administers a program under which 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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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, 2018 is as follows:

	2018	2017
	\$	\$
Assets	143,304,081	142,471,898
Liabilities	<u>(114,837,807)</u>	<u>(118,168,611)</u>
Net assets	<u>28,466,274</u>	<u>24,303,287</u>
Revenue	37,664,471	37,414,147
Expenses	<u>(22,661,736)</u>	<u>(37,553,970)</u>
Excess (deficiency) of revenue over expenses before the following adjustments	15,002,735	(139,823)
Unrealized gain (loss) on fair market value of investments	<u>(5,339,748)</u>	<u>1,182,565</u>
Excess of revenue over expenses	<u>9,662,987</u>	<u>1,042,742</u>
Cash flows from operating activities	6,909,849	2,896,570
Cash flows from investing activities	<u>(9,016,222)</u>	<u>(932,162)</u>
Increase (decrease) in cash and cash equivalents	<u>(2,106,373)</u>	<u>1,964,408</u>

During the year the Law Society received \$3,490,072 from the Association for management fees (2017 – \$3,343,475). As at December 31, 2018, \$21,814 was due to the Association and \$70 was due from the Exchange (2017 – due from the Association \$15,483; due from the Exchange \$1,533) 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 \$263,579 were incurred with these law firms (2017 - \$233,912). Board members are not involved in the retention of these firms.

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12 Financial instruments

Interest rate risk

The Law Society is exposed to interest rate risk on its investments. The Law Society manages the interest rate risk on 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 \$6,856,194. The maturity dates and interest rates are as follows:

Maturity date from balance sheet date	December 31, 2018		December 31, 2017	
	Interest rate Range	Market value \$	Interest rate Range	Market value \$
Within five years	1.25 – 7.56%	1,488,386	1.25 – 7.56%	2,070,849
Greater than five years but less than ten years	1.00 – 4.29%	4,428,048	1.00 – 4.86%	2,774,750
Greater than ten years	2.25 – 6.50%	939,760	2.80 – 4.65%	1,504,282
		<u>6,856,194</u>		<u>6,349,881</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.