

The Alberta Lawyers Insurance Association

Financial Statements
June 30, 2006

October 11, 2006

Auditors' Report

To the Directors of The Alberta Lawyers Insurance Association

We have audited the balance sheet of **The Alberta Lawyers Insurance Association** as at June 30, 2006 and the statements of revenue, expenses and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

The Alberta Lawyers Insurance Association

Balance Sheet

As at June 30, 2006

	2006 \$	2005 \$
Assets		
Current assets		
Cash and cash equivalents	13,249,455	15,672,187
Accounts receivable	2,984,735	3,964,117
Accrued interest	461,042	395,835
Prepaid expenses	1,078,127	1,374,518
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	17,773,359	21,406,657
Investments – at cost (market value \$84,985,432; 2005 – \$79,209,563)	64,429,132	56,686,546
Reinsurance recoverables (notes 2 and 4)	211,000	167,000
Capital assets (note 3)	18,948	30,967
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	82,432,439	78,291,170
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	727,842	1,076,110
Deferred revenue	12,043,246	14,682,108
Due to (from) The Law Society of Alberta (note 6)	1,317	(4,303)
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	12,772,405	15,753,915
Reserve for claims and related costs (note 4)	43,721,000	45,243,000
Net assets		
Unrestricted	25,939,014	17,294,255
Share capital (note 5)	20	-
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	25,939,034	17,294,255
	<hr/>	<hr/>
	82,432,439	78,291,170
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Approved by the Board of Directors

_____ Director

_____ Director

The Alberta Lawyers Insurance Association

Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2006

	2006 \$	2005 \$
Revenue		
Annual levy	15,417,089	14,118,783
Investment income	8,484,221	3,916,364
	<hr/> 23,901,310	<hr/> 18,035,147
Expenses		
Provision for claims and related costs (note 4)	10,267,074	19,011,025
Premium paid to Canadian Lawyers Insurance Association	2,580,656	2,107,810
Salaries and employee benefits	1,061,876	1,080,344
Management fee (note 6)	782,452	723,250
Investment counsel fee	258,717	168,224
Administration	125,977	81,738
Consultant fees	51,339	22,330
Bad debt expense	47,921	8,099
Loss prevention	46,540	103,700
Professional fees	17,420	15,600
Amortization	16,579	16,634
	<hr/> 15,256,551	<hr/> 23,338,754
Excess (deficiency) of revenue over expenses for the year	8,644,759	(5,303,607)
Unrestricted net assets – Beginning of year	17,294,255	22,597,862
Unrestricted net assets – End of year	<hr/> 25,939,014	<hr/> 17,294,255

The Alberta Lawyers Insurance Association

Statement of Cash Flows

For the year ended June 30, 2006

	2006 \$	2005 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	8,644,759	(5,303,607)
Items not affecting cash		
Amortization	16,579	16,634
Gain on sale of investments	(5,343,217)	(1,123,790)
Provision for claims and related costs (note 4)	10,267,074	19,011,025
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	13,585,195	12,600,262
Changes in non-cash working capital items	(1,770,944)	1,532,416
Claims and related costs paid – net of recoveries (note 4)	(11,833,074)	(9,968,025)
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	(18,823)	4,164,653
Investing and financing activities		
Proceeds on disposal of investments	10,470,090	22,519,308
Purchase of investments	(12,869,459)	(26,220,537)
Purchase of capital assets	(4,560)	(10,982)
Proceeds on issuance of share capital	20	-
	<hr/>	<hr/>
	(2,403,909)	(3,712,211)
(Decrease) increase in cash and cash equivalents	(2,422,732)	452,442
Cash and cash equivalents – Beginning of year	15,672,187	15,219,745
	<hr/>	<hr/>
Cash and cash equivalents – End of year	13,249,455	15,672,187
Cash and cash equivalents are comprised of		
Cash	3,774,595	9,805,616
Short-term investments	9,474,860	5,866,571
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	13,249,455	15,672,187
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The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2006

1 General

The Alberta Lawyers Insurance Association (the "Association") was incorporated on June 6, 1988 under Part 9 of the Companies Act of Alberta, chapter C-21, RSA 2000. On January 30, 2006, the Association was converted from a company limited by guarantee to a company limited by shares (see note 5). The Association administers a program under which members have mandatory coverage for errors and omissions of \$1,000,000 per occurrence, with an annual aggregate limit of \$2,000,000. The Association has contracted with the Canadian Lawyers Insurance Association ("CLIA") for group coverage subject to a group deductible of \$300,000 for each claim. The Association is subject to premiums and other assessments that may arise from the agreement with CLIA. The Association meets the qualifications of a non-profit organization as defined by the Income Tax Act and as such is exempt from taxes.

2 Summary of significant accounting policies

Revenue recognition

The levy is determined annually in June. Revenue is recorded evenly throughout the year. Amounts received that pertain to the period subsequent to the year-end are recorded as deferred revenue.

Recoveries

Recoveries from insurers and other third parties are recorded when they can be reasonably estimated and collectibility is reasonably assured. Otherwise, the recovery is recorded when received.

Provision for claims and related costs

The provision for claims and related costs is based upon the change from year to year in the reinsurance recoverables and reserve for claims and related cost. The reserve value is based on the greater of the Association's estimate of the cost of claims during the current year and the actuarial computed discounted cost of possible claims for the current year.

The Association's actuary is engaged to provide an annual valuation of the reserve for claims and related costs in accordance with the standards of practice adopted by the Canadian Institute of Actuaries. For the purpose of the actuarial valuation, the actuary is making use of certain information contained in the Association's financial records.

Reinsurance recoverables

In the normal course of business, the Association seeks to limit exposure to losses on large risks by purchasing reinsurance from reinsurers. The amounts reported in the balance sheet include estimates of amounts expected to be recovered from reinsurers on incurred losses that have not yet been paid or where the file has been closed.

The provision for claims and related costs have been disclosed on a gross basis with an offsetting asset reflecting the reinsurance recoverables.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2006

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments comprised of treasury bills that mature within 90 days and are readily convertible to known amounts of cash and are insignificant risk of change in value.

Investments

Long-term investments are recorded at cost and are written down to market value only if there is a permanent impairment in value. Cost is determined on a weighted average basis using the purchase date.

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%
Computer	33 1/3%

Donated services

A portion of the Association's work is dependent on the services of volunteers, in particular the significant contribution of the Benchers, the Insurance Committee, and the Claims Committee. These services are not normally purchased by the Association and, due to the difficulty in determining their fair value, donated services are not recognized in these financial statements.

Use of estimates

Some items in the financial statements are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. The most significant of these is an estimate for the reserve for claims. It is possible, based on existing knowledge, that changes in the future conditions would require a material change in the recognized amounts of certain items.

Comparative figures

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

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2006

3 Capital assets

	2006		2005	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and equipment	17,627	6,990	10,637	9,298
Computer	45,517	37,206	8,311	21,669
	63,144	44,196	18,948	30,967

4 Reserve for claims and related costs

The change in the reinsurance recoverables is summarized as follows:

	2006 \$	2005 \$
Reinsurance recoverables – Beginning of year	167,000	210,000
Increase (decrease) due to claims experience	44,000	(43,000)
Reinsurance recoverables – End of year	211,000	167,000

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

Reserve for claims and related costs – Beginning of year	45,243,000	36,243,000
Claims paid and accrued	(11,643,394)	(8,667,683)
Related costs paid and accrued	(3,682,280)	(3,548,112)
Recoveries	3,492,600	2,247,770
	33,409,926	26,274,975
Increase due to claims experience	10,311,074	18,968,025
Reserve for claims and related costs – End of year	43,721,000	45,243,000

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2006

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

In summary, the net exposure is summarized as follows:

	2006 \$	2005 \$
Reserve for claims and related costs – Beginning of year	45,243,000	36,243,000
Reinsurance recoverable – Beginning of year	(167,000)	(210,000)
Net exposure – Beginning of year	45,076,000	36,033,000
Claims paid and accrued	(11,643,394)	(8,667,683)
Related costs paid and accrued	(3,682,280)	(3,548,112)
Recoveries	3,492,600	2,247,770
	(11,833,074)	(9,968,025)
Provision for claims and related costs	10,267,074	19,011,025
Net exposure – End of year	43,510,000	45,076,000
Reserve for claims and related costs – End of year	43,721,000	45,243,000
Reinsurance recoverable – End of year	(211,000)	(167,000)
Net exposure – End of year	43,510,000	45,076,000

5 Share capital

On January 30, 2006, the Association, by application to the Court of Queen’s Bench, was converted from a company limited by guarantee to a company limited by shares. As a result of this conversion, share capital of \$20 was issued representing four common shares; three shares issued to The Law Society of Alberta (“LSA”) and one common share issued to the person from time to time holding the office of Executive Director of The Law Society of Alberta, as bare trustee for The Law Society of Alberta.

6 Related party transactions

As described in note 5, the Association is now a wholly owned subsidiary of LSA. During the year, the Association paid LSA an amount of \$782,452 (2005 – \$723,250) for management fees. The balance due to the LSA at June 30 of \$1,317 (2005 due from – \$4,303) is non-interest bearing and due on demand.

The Alberta Lawyers Insurance Association

Notes to Financial Statements

June 30, 2006

7 Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, reinsurance recoverables, due from (to) The Law Society of Alberta, investments, accounts payable and accrued liabilities, and reserve for claims and related costs. The fair market value of all financial instruments, except for investments, reinsurance recoverables, and reserve for claims and related costs, approximate book value due to their short-term nature. The fair market value of investments has been disclosed on the balance sheet. The fair value of reinsurance recoverables and reserve for claims and related costs have not been determined due to difficulty in estimating their value.

Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 4.22%.

Included in investments are fixed income bonds in the amount of \$38,676,297. The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate range	Amount \$
Within one year	3.00% – 7.25%	4,091,950
Greater than one year but less than five years	3.55% – 11.75%	22,598,182
Greater than five years	4.00% – 10.00%	11,986,165
		<u>38,676,297</u>

It is the opinion of management that the Association is not subject to significant interest rate risk due to the nature of its investments.

Credit risk

It is the opinion of management that the Association is not subject to significant credit risk, as the Association does not grant credit to members.

