The Alberta Lawyers Insurance Association

Financial Statements
June 30, 2008

PRICEWATERHOUSECOOPERS

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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, 2008 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, 2008 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, 2008

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	12,413,690	12,335,545
Accounts receivable	4,368,342	4,227,519
Accrued interest	380,546	449,173
Prepaid expenses	-	82,540
Due from The Law Society of Alberta (note 7)	69,069	26,745
	17,231,647	17,121,522
Investments (note 2)	89,168,963	72,688,387
Capital assets (note 4)	21,053	35,109
	106,421,663	89,845,018
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	720,070	772,158
Deferred revenue	9,983,978	10,411,498
	10,704,048	11,183,656
Reserve for claims and related costs (note 5)	45,147,000	43,212,867
Net assets		
Unrestricted	50,570,595	35,448,475
Share capital (note 6)	20	20
	50,570,615	35,448,495
	106,421,663	89,845,018

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, 2008

	2008 $	2007 $
Revenue		
Annual levy	10,943,738	12,693,669
Investment income	3,808,850	10,964,911
Unrealized loss on fair market value of investments	(3,122,950)	-
	11,629,638	23,658,580
Expenses		
Provision for claims and related costs (note 5)	13,291,075	9,677,132
Premium paid to Canadian Lawyers Insurance Association	2,755,392	2,003,328
Salaries and employee benefits	1,315,296	1,167,548
Management fee (note 7)	922,926	835,583
Investment counsel fee	252,152	248,368
Administration	88,915	98,342
Professional fees	50,075	43,783
Consultant fees	47,585	87,166
Bad debt expense (recovery)	19,602	(36,748)
Amortization	14,056	12,167
Loss prevention	6,075	12,450
	18,763,149	14,149,119
(Deficiency) excess of revenue over expenses for the year before the following	(7,133,511)	9,509,461
Premium credit (note 10)	1,662,383	-
(Deficiency) excess of revenue over expenses for the year	(5,471,128)	9,509,461
Unrestricted net assets – Beginning of year	35,448,475	25,939,014
Transitional adjustment for change in accounting policy (note 2)	20,593,248	-
Unrestricted net assets – End of year	50,570,595	35,448,475

The Alberta Lawyers Insurance Association

Statement of Cash Flows

For the year ended June 30, 2008

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(5,471,128)	9,509,461
Items not affecting cash		
Amortization	14,056	12,167
Gain on sale of investments	(107,588)	(7,040,516)
Unrealized loss on fair market value of investments	3,122,950	-
Provision for claims and related costs (note 5)	13,291,075	9,677,132
	10,849,365	12,158,244
Changes in non-cash working capital items	(511,589)	(1,850,822)
Claims and related costs paid – net of recoveries (note 5)	(11,356,941)	(9,974,265)
	(1,019,165)	333,157
Investing and financing activities		
Proceeds on disposal of investments	13,839,701	44,807,257
Purchase of investments	(12,742,391)	(46,025,996)
Purchase of capital assets	-	(28,328)
	1,097,310	(1,247,067)
Increase (decrease) in cash and cash equivalents	78,145	(913,910)
Cash and cash equivalents – Beginning of year	12,335,545	13,249,455
Cash and cash equivalents – End of year	12,413,690	12,335,545
Cash and cash equivalents are comprised of		
Cash	4,567,927	5,978,027
Short-term investments	7,845,763	6,357,518
	12,413,690	12,335,545

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 Change in accounting policies

Effective in 2007

Effective July 1, 2007, the Association adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 *Financial Instruments – Recognition and Measurement.* This section provides guidance on when a financial instrument must be recognized on the balance sheet and how it is to be measured. It also provides guidance on the presentation of gains and losses on financial instruments.

The financial instruments must initially be recognized at fair value on the balance sheet. The Association has classified each financial instrument into the following categories:

- Loans and receivables
- Held-for-trading
- Financial liabilities

Subsequent measurement of the financial instruments is based on their classification. Financial loans and receivables and other financial liabilities are measured at cost or amortized cost. Held-for-trading investments are measured at fair market value with unrealized gains or losses recognized in the statement of operations.

A transitional adjustment at July 1, 2007 of $20,593,248 was required as a result of the adoption of this standard. Further for the year ended June 30, 2008, $735,840 of net unrealized losses in the fair value of held-for-trading investments was recorded in investment income.

The prior years financial statements have not been restated for the adoption of this new accounting policy.

Effective in future years

a) Financial Instruments – Disclosure and Presentation

The CICA has issued two new accounting standards 3862 *Financial Instruments – Disclosures,* and Section 3863 *Financial Instruments – Presentation.* These sections will replace Section 3861 *Financial Instruments – Disclosure and Presentation,* revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for fiscal years beginning on October 1, 2008. This new requirement is for disclosure only and will not impact the financial results of the Association.

b) Capital disclosures

This new section establishes standards for disclosing information regarding an entity's capital and how it is managed. The section applies to financial statements related to fiscal years beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Association.

c) Section 4400, Financial Statement Presentation by Not-For-Profit Organizations

Recent amendments to Section 4400, Financial Statement Presentation by Not-For-Profit Organizations will modify the requirements with respect to various elements of financial statement presentation. These amendments include preparation of the cash flow statement in accordance with handbook Section 1751.

The new standard applies to the financial statements relating to the fiscal years beginning on or after January 1, 2009, specifically July 1, 2009 for the Association. This standard will impact the Association's disclosures provided but will not affect the Association's results or financial position.

3 Summary of significant accounting policies

Revenue recognition

The levy is determined annually in June and amounts are due from members prior to July 1st. Levy revenue is recorded evenly throughout the year. Amounts received or receivable from members that pertain to the period subsequent to the year end are recorded as deferred revenue.

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.

Recoveries

Recoveries for claims and related costs from insurers and other third parties are recorded when they can be reasonably estimated and collectability is reasonably assured. Otherwise, the recovery is recorded when received.

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 fair market value at June 30, 2008 and at the lower of cost and market value at June 30, 2007. Cost was 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 and related costs. 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.

4 Capital assets

	2008			2007
	Cost $	Accumulated amortization $	Net $	Net $
Furniture and equipment	17,627	13,886	3,741	7,112
Computer	32,396	15,084	17,312	27,997
	50,023	28,970	21,053	35,109

5 Reserve for claims and related costs

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

	2008 $	2007 $
Reserve for claims and related costs – Beginning of year	43,212,867	43,510,000
Claims paid and accrued	(13,248,234)	(9,540,418)
Related costs paid and accrued	(4,229,016)	(3,664,807)
Recoveries	6,120,308	3,230,960
	31,855,925	33,535,735
Increase due to claims experience	13,291,075	9,677,132
Reserve for claims and related costs – End of year	45,147,000	43,212,867

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.

The discount rate applied by the actuary at June 30, 2008 is 4.75% (2007 – 5%). The undiscounted reserve balance at June 30, 2008 is $46,869,000.

6 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.

7 Related party transactions

As described in note 6, the Association is a wholly owned subsidiary of LSA. During the year, the Association paid LSA an amount of $922,926 (2007 – $835,583) for management fees. The balance due from the LSA at June 30 of $69,069 (2007 due from LSA – $26,745) is non-interest bearing and due on demand.

8 Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, due from 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 and reserve for claims and related costs, approximate book value due to their short-term nature. The Association records its investments at fair market value. The fair value of 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 2.4%.

Included in investments are fixed income bonds in the amount of $45,764,375. The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate Range	Cost amount $	Market value $
Within two year	3.93 – 3.95%	2,515,700	2,491,070
Greater than two years but less than ten years	3.55 – 6.15%	35,174,475	35,505,956
Greater than ten years	5.65 – 6.5%	8,074,200	8,120,080
		45,764,375	46,117,106

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.

Currency risk

The Association is exposed to currency risk to the extent that investments are not denominated in Canadian dollars. The Association has not entered into any foreign currency contracts to mitigate this risk.

9 Equity in Canadian Lawyers' Insurance Association

The Association is a subscriber to the Canadian Lawyers Insurance Association (C.L.I.A.), a reciprocal insurance exchange through which the law societies of ten provinces and territories (or their associated liability insurance entities) enter into agreements of mutual indemnification. Separate reserves are maintained by C.L.I.A. with respect to risks assumed and the Association has an interest in surpluses in these reserves. C.L.I.A. prepares annual Subscriber Accounts, as at the end of C.L.I.A.'s fiscal year (December 31), which are approved by the C.L.I.A. Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscribers Accounts of C.L.I.A. as at December 31, 2007 show the Association's equity to be approximately $9.4 million (December 31, 2006 – $5.6 million). The Association's equity is not reflected in these financial statements.

10 Premium credit

During the year the Association was awarded a refund of previous years' mandatory premiums from C.L.I.A. in the amount of $1,662,383 (2007 – $nil). This amount is an accumulation of the excess premiums paid over claims and related investment income for a number of policy years. This refund was declared at the April 12, 2008 Board meeting of C.L.I.A. and has been recorded as revenue in these financial statements.

11 Subsequent events

As at October 31, 2008, the fair value of the Association's investments had declined by approximately $9.5 million from the fair value recorded at June 30, 2008.