The Alberta Lawyers Insurance Association

Non-consolidated Financial Statements
June 30, 2011

December 19, 2011

Independent Auditor's Report

To the Directors of
The Alberta Lawyers Insurance Association

We have audited the accompanying non-consolidated financial statements of **The Alberta Lawyers Insurance Association**, which comprise the non-consolidated balance sheet as at June 30, 2011 and the non-consolidated statements of revenue, expenses and net assets and non-consolidated 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 generally accepted accounting principles, 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.

PricewaterhouseCoopers LLP, Chartered Accountants
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of **The Alberta Lawyers Insurance Association** as at June 30, 2011 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

Non-consolidated Balance Sheet

As at June 30, 2011

	2011 $	2010 $
Assets		
Current assets		
Cash and cash equivalents	19,191,808	13,538,705
Accounts receivable	5,014,580	3,812,143
Accrued interest	350,407	363,992
Due from The Law Society of Alberta (note 7)	-	4,152
Due from 1452597 Alberta Ltd. (note 7)	543,257	579,557
	25,100,052	18,298,549
Investments (note 3)	84,892,443	85,051,328
Capital assets (note 4)	40,125	45,793
	110,032,620	103,395,670
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	457,692	213,180
Due to The Law Society of Alberta (note 7)	25,253	-
Deferred revenue	18,330,851	16,809,995
	18,813,796	17,023,175
Reserve for claims and related costs (note 5)	55,354,000	55,034,000
Net assets		
Unrestricted	35,864,804	31,338,475
Share capital (note 6)	20	20
	35,864,824	31,338,495
	110,032,620	103,395,670

Approved by the Board of Directors

____________________ Director ____________________ Director

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

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Revenue, Expenses and Net Assets

For the year ended June 30, 2011

	2011 $	2010 $
Revenue		
Annual levy	17,470,612	15,398,169
Investment income	5,717,083	8,461,735
	23,187,695	23,859,904
Expenses		
Provision for claims and related costs (note 5)	16,167,748	20,174,408
Premium paid to the Canadian Lawyers Insurance Association	4,206,388	3,799,299
Salaries and employee benefits	1,772,850	1,833,275
Management fee (note 7)	1,258,588	1,122,436
Investment counsel fee	243,345	233,235
Administration	87,951	121,283
Professional fees	86,379	77,869
Loss prevention	26,735	10,200
Amortization	19,198	24,583
Bad debt recovery	-	(3,675)
	23,869,182	27,392,913
Deficiency of revenue over expenses for the year before the following	(681,487)	(3,533,009)
Unrealized gain (loss) on the fair market value of investments	5,207,816	(2,336,469)
Excess (deficiency) of revenue over expenses for the year	4,526,329	(5,869,478)
Unrestricted net assets – beginning of year	31,338,495	37,207,973
Unrestricted net assets – end of year	35,864,824	31,338,495

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

The Alberta Lawyers Insurance Association

Non-consolidated Statement of Cash Flows

For the year ended June 30, 2011

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	4,526,329	(5,869,478)
Items not affecting cash		
Amortization	19,198	24,583
Gain on sale of investments	(2,695,431)	(5,313,565)
Unrealized (gain) loss on fair market value of investments	(5,207,816)	2,336,469
Provision for claims and related costs (note 5)	16,167,748	20,174,408
	12,810,028	11,352,417
Changes in non-cash working capital items	642,221	2,723,125
Claims and related costs paid – net of recoveries (note 5)	(15,847,748)	(11,167,408)
	(2,395,499)	2,908,134
Investing activities		
Proceeds on disposal of investments	32,328,402	39,678,363
Purchase of investments	(24,266,270)	(41,606,487)
Purchase of capital assets	(13,530)	(41,540)
	8,048,602	(1,969,664)
Increase in cash and cash equivalents	5,653,103	938,470
Cash and cash equivalents – beginning of year	13,538,705	12,600,235
Cash and cash equivalents – end of year	19,191,808	13,538,705
Cash and cash equivalents are comprised of		
Cash	9,619,524	5,429,778
Short-term investments	9,572,284	8,108,927
	19,191,808	13,538,705
Interest received	2,082,243	2,112,301

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 6). The Association administers a program under which active members of the Law Society of Alberta (the “Law Society”) in private practice (insured lawyers) 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. The financial statements of the Association are prepared on a non-consolidated basis. Refer to Note 7 “Related Party Transactions”.

2 Summary of significant accounting policies

Revenue recognition

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

Investment income

Investment income comprises of interest, dividends, fund distributions, and gains (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 net assets as an unrealized gain (loss).

Reserve and Provision for claims and related costs

The provision for claims and related costs is based upon the change from year to year in the 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 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 120 days and are readily convertible to known amounts of cash and have an insignificant risk of change in value.

Investments

Investments are carried at market value with unrealized gains or losses recognized directly in the statement of revenue, expenses and net assets.

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%
Computers	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 of the Law Society, 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 change in future conditions would require a material change in the recognized amounts of certain items.

Financial instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, accrued interest, due to (from) The Law Society of Alberta, due from 1452597 Alberta Ltd., investments, accounts payable and accrued liabilities.

The Association has classified each financial instrument into the following categories:

Category	Financial Instrument
Loans and receivables	Accounts receivable, accrued interest, due to (from) the Law Society of Alberta, due from 1452597 Alberta Ltd.
Held-for-trading	Investments, Cash and cash equivalents
Financial liabilities	Accounts payable and accrued liabilities

Financial instruments must initially be recognized at fair value on the balance sheet. Subsequent measurement of the financial instruments is based on their classification. Cash and cash equivalents are measured at cost which approximates market value due to their short term nature. Loans, receivables and 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.

Comparative figures

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

3 Investments

The Association's investments are managed under contract with an investment manager. The Association's investments are carried at market value, subject to normal market fluctuations, and the statement of revenue and expense reports both realized and unrealized gains and losses on investments. The Association's investments consist of bonds and equity investments.

Investments at June 30 are as follows:

	2011 $	2010 $
Bonds denominated in Canadian dollars:		
Corporate	17,283,005	18,338,030
Municipal government	2,171,980	3,047,961
Provincial government	12,203,932	11,687,963
Federal government	14,950,342	16,030,120
	46,609,259	49,104,074
Equities denominated in the following currencies:		
Canadian dollar	14,673,680	15,131,241
United States dollar	13,591,917	13,372,259
All others	10,017,587	7,443,754
	38,283,184	35,947,254
	84,892,443	85,051,328

4 Capital assets

	2011			2010
	Cost $	**Accumulated amortization $**	**Net $**	**Net $**
Furniture and equipment	41,667	15,802	25,865	19,785
Computers	38,170	23,910	14,260	26,008
	79,837	39,712	40,125	45,793

5 Reserve for claims and related costs

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

	2011 $	2010 $
Reserve for claims and related costs – beginning of year	55,034,000	46,027,000
Claims paid and accrued	(15,587,986)	(6,947,420)
Related costs paid and accrued	(5,390,676)	(5,230,662)
Recoveries	5,130,914	1,010,674
	(15,847,748)	(11,167,408)
Increase due to claims experience	16,167,748	20,174,408
Reserve for claims and related costs – end of year	55,354,000	55,034,000
Actuarial liability	51,058,000	51,021,000
Provision for incurred but unreported claims	4,296,000	4,013,000
Reserve for claims and related costs	55,354,000	55,034,000

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, 2011 is 4.25% (2010 – 4.4%). The undiscounted reserve balance at June 30, 2011 is $55,433,000 (2010 – $55,896,000).

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 and one common share issued to the person from time to time holding the office of Executive Director of the Law Society, as bare trustee for the Law Society.

7 Related party transactions

As described in note 6, the Association is a wholly owned subsidiary of the Law Society. During the year, the Association paid the Law Society an amount of $1,258,588 (2010 – $1,122,436) for management fees. The balance due to the Law Society at June 30 of $25,253 (2010 – $4,152 due from the Law Society) is non-interest bearing and due on demand.

1452597 Alberta Ltd. ("1452597") is a wholly owned subsidiary of the Association and was incorporated on February 12, 2009 under the Business Corporations Act. Share capital of $1 consists of 100 common shares.

The sole purpose of 1452597 is to hold real property obtained under the terms of a claim settlement regarding the Association's insurance coverage for members of the Law Society. The claim will be concluded by selling the property and transferring the net proceeds to the Association at which time 1452597 will be wound up.

The Association does not consolidate the results of 1452597 in its financial statements as permitted by CICA 4450 "Reporting Controlled and Related Entities by Not-for-Profit Organizations" and CICA 4460 "Disclosure of Related Party Transactions". A summary of 1452597's financial information at June 30 is as follows:

	2011 **$**	**2010** **$**
Assets	530,000	568,071
Liabilities	543,257	579,557
Net assets	(13,257)	(11,486)
Expenses	1,505	8,246
Excess of revenues over expenditures	(1,505)	(8,246)
Cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Increase in cash and cash equivalents	-	-

8 Financial instruments

Fair value

The fair market value of all financial instruments, except for investments, approximates book value due to their short term nature. The Association records its equity investments at fair market value based upon quoted market values. Bond values are determined from multiple sources using the average bid/ask spread and at various times of day. The fair value of reserve for claims and related costs is based upon annual actuarial assessments.

Interest rate risk

Treasury bills have a maturity date within a year from the balance sheet date and bear an interest rate of 0.93% (2010 – 0.45%).

Included in investments are fixed income bonds in the amount of $46,609,259 (2010 – $49,104,074). The maturity dates and interest rate ranges are as follows:

Maturity dates (from balance sheet date)	Interest rate range 2011	Market value $ 2011	Interest rate range 2010	Market value $ 2010
Within five years	4.65 – 6.15%	9,352,657	2.20 – 6.15%	19,745,014
Greater than five years but less than ten years	3.25 – 5.68%	31,392,842	3.66 – 5.68%	23,454,866
Greater than ten years	4.70 – 6.45%	5,863,760	5.70 – 6.45%	5,904,194
		46,609,259		49,104,074

The Association manages the interest rate risk on fixed income bonds through the use of an investment manager who operates subject to investment parameters designed to mitigate this risk.

Price risk

The investments of the Association are subject to price risk because changing interest rates impact the market value of the fixed rate 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 mitigated through the use of an investment manager for the long term portfolio investments and by investing other funds in short term fixed rate products with high credit ratings.

Credit risk

The Association does not believe it is exposed to significant credit risk on any of its financial assets. The Association manages credit risk by maintaining bank accounts with reputable financial institutions, only investing in securities that are liquid, highly rated, traded in active markets and its accounts receivables are small and from reputable, credit-worthy organizations.

Currency risk

The Association is exposed to currency risk to the extent that investments are not denominated in Canadian dollars. Refer to note 3. The Association has not entered into any foreign currency contracts to mitigate this risk.

Liquidity risk

The Association uses an investment manager for the investments it plans to hold for a long period of time. These investments are subject to liquidity risk if the Association is required to sell at a time that the market for these investments is unfavourable.

9 Equity in Canadian Lawyers Insurance Association

The Association is a subscriber to the Canadian Lawyers Insurance Association (CLIA), 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 CLIA with respect to risks assumed and the Association has an interest in surpluses in these reserves. CLIA prepares annual Subscriber Accounts, as at the end of CLIA's fiscal year (December 31), which are approved by the CLIA Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscriber Accounts of CLIA as at December 31, 2010 show the Association's equity to be approximately $8.0 million (December 31, 2009 – $6.5 million). The Association's equity is not reflected in these financial statements.

10 Capital disclosures

The Association defines its capital as the amounts included in Net Assets.

The Association's objective when managing Net Assets is to safeguard the entity's ability to continue as a going concern and to provide the appropriate level of benefits and services to its stakeholders and others in the public interest.

The Association sets the amount of unrestricted Net Assets in proportion to risk and manages the fund structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of the underlying assets, and the requirements of its stakeholders and others in the public interest.