

*Financial Statements of*

**THE LAW SOCIETY OF MANITOBA**

*March 31, 2012*

## INDEPENDENT AUDITOR'S REPORT

To the Members of The Law Society of Manitoba

We have audited the accompanying financial statements of The Law Society of Manitoba, which comprise the balance sheet as at March 31, 2012 and the statements of General Fund, Reimbursement Fund, Professional Liability Claims Fund, Education and Competence Program Fund, and Endowment and Trust Funds operations and equity for the year then ended and the notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

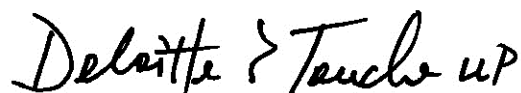
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements present fairly, in all material aspects, the financial position of The Law Society of Manitoba as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

June 28, 2012  
Winnipeg, Manitoba

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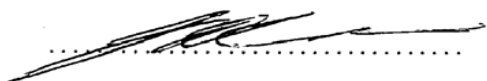
**THE LAW SOCIETY OF MANITOBA**

**Balance Sheet**

As at March 31, 2012

	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Program Fund	Endowment and Trust Funds	2012 Total	2011 Total
<b>ASSETS</b>							
Cash and term deposits	\$ 1,501,360	\$ -	\$ -	\$ 100	\$ -	\$ 1,501,460	\$ 1,198,388
Funds held in trust	446,324	-	-	-	-	446,324	413,848
Accounts and accrued interest receivable	79,169	80,008	94,099	1,910	388	255,574	158,009
Due from The Manitoba Law Library Inc.	685,605	-	-	-	-	685,605	477,430
Prepaid expenses	7,732	41,920	179,883	3,364	-	232,899	204,819
Investments (Note 5)	1,152,269	219,611	15,451,319	357,831	5,000	17,186,030	19,110,151
Deferred charge - pension plan (Note 10)	2,254,971	-	-	-	-	2,254,971	1,901,412
Capital assets (Note 6)	231,057	-	-	-	-	231,057	240,340
	<b>\$ 6,358,487</b>	<b>\$ 341,539</b>	<b>\$ 15,725,301</b>	<b>\$ 363,205</b>	<b>\$ 5,388</b>	<b>\$ 22,793,920</b>	<b>\$ 23,704,397</b>
<b>LIABILITIES AND FUND EQUITIES</b>							
Accounts payable and accrued liabilities	\$ 197,225	\$ 325	\$ 59,352	\$ 32,706	\$ -	\$ 289,608	\$ 272,822
Funds held in trust	446,324	-	-	-	-	446,324	413,848
Fees and assessments paid in advance	1,247,025	186,075	273,875	217,507	-	1,924,482	1,221,853
Due to (from) other funds	1,932,353	(540,051)	(1,061,869)	(327,751)	(2,682)	-	-
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	6,882,000	-	-	6,882,000	6,882,000
Fund equity							
General Fund	2,535,560	-	-	-	-	2,535,560	2,394,404
Reimbursement Fund (Note 8)	-	695,190	-	-	-	695,190	1,461,461
Professional Liability Claims Fund (Note 7)	-	-	9,571,943	-	-	9,571,943	10,096,949
Education and Competence Program Fund	-	-	-	440,743	-	440,743	953,065
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,882	5,882	5,807
	<b>\$ 6,358,487</b>	<b>\$ 341,539</b>	<b>\$ 15,725,301</b>	<b>\$ 363,205</b>	<b>\$ 5,388</b>	<b>\$ 22,793,920</b>	<b>\$ 23,704,397</b>

ON BEHALF OF THE BENCHERS



**THE LAW SOCIETY OF MANITOBA**  
**Statement of General Fund Operations and Equity**  
**For the Year Ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Annual fee		
Practising	<b>\$ 2,835,719</b>	\$ 2,599,743
Non-practising	<b>26,500</b>	26,600
Miscellaneous	<b>137,790</b>	106,912
Administration fees	<b>22,350</b>	23,600
Investment income	<b>97,527</b>	135,708
Costs recovered - discipline	<b>146,236</b>	116,028
	<b>3,266,122</b>	3,008,591
<b>EXPENSES</b>		
Amortization	<b>23,879</b>	27,132
Benchers' meeting expenses	<b>43,269</b>	46,646
Building maintenance	<b>40,380</b>	42,535
Discipline Committee expenses	<b>188,679</b>	197,563
Grant to Community Legal Education Association	<b>60,000</b>	60,000
Investment management fees	<b>29,746</b>	23,224
Library grant	<b>550,000</b>	575,000
Other grants and prizes	<b>115,478</b>	104,638
Office equipment and maintenance	<b>46,189</b>	63,862
Other office and sundry expenses	<b>123,857</b>	110,628
Printing, stationery and postage	<b>129,880</b>	137,331
Professional fees	<b>30,911</b>	48,854
Property taxes	<b>11,649</b>	11,529
Salaries and benefits	<b>2,811,847</b>	2,371,040
Travel	<b>102,765</b>	66,426
Utilities	<b>29,240</b>	31,457
Recovery of administrative charges	<b>(1,215,000)</b>	(1,095,000)
	<b>3,122,769</b>	2,822,865
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>143,353</b>	185,726
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>2,394,404</b>	2,198,434
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>(2,197)</b>	10,244
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 2,535,560</b>	\$ 2,394,404

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Reimbursement Fund Operations and Equity**  
**For the Year Ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Annual assessments	\$ 192,255	\$ 189,073
Investment income	14,837	55,773
Recovery of claims	10,300	11,802
Grant from Manitoba Law Foundation	103,326	83,392
	<b>320,718</b>	<b>340,040</b>
<b>EXPENSES</b>		
Administrative charges	405,000	365,000
Claims	115,213	-
Insurance	178,786	220,862
Investment management fees	2,823	5,566
Legal and investigation	48,278	-
Salaries	304,279	311,845
Travel	8,413	8,660
	<b>1,062,792</b>	<b>911,933</b>
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<b>(742,074)</b>	<b>(571,893)</b>
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>1,461,461</b>	<b>2,039,677</b>
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>(24,197)</b>	<b>(6,323)</b>
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 695,190</b>	<b>\$ 1,461,461</b>

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Professional Liability Claims Fund**  
**Operations and Equity**  
**For the Year Ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Insurance premiums paid by members	<b>\$ 1,021,405</b>	\$ 898,895
Investment income	<b>744,358</b>	1,067,267
Miscellaneous income	<b>1,558</b>	445
	<b>1,767,321</b>	1,966,607
<b>EXPENSES</b>		
Administrative charges	<b>405,000</b>	365,000
Claims paid (Note 9)	<b>511,004</b>	738,103
Counsel fees (Note 9)	<b>325,524</b>	183,772
Investment management fees	<b>97,276</b>	83,628
Lawyers at Risk	<b>67,210</b>	56,123
Library grant	<b>50,000</b>	50,000
Actuarial fees	<b>34,019</b>	25,045
Office and sundry expenses	<b>27,252</b>	20,245
Premiums	<b>684,429</b>	578,600
Salaries	<b>325,186</b>	325,152
Practice advisor	<b>33,504</b>	33,391
	<b>2,560,404</b>	2,459,059
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<b>(793,083)</b>	(492,452)
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>10,096,949</b>	10,341,936
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>268,077</b>	247,465
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 9,571,943</b>	\$ 10,096,949

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Education and Competence Program Fund**  
**Operations and Equity**  
**For the Year Ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Grant from Manitoba Law Foundation	\$ 103,326	\$ 83,392
Legal education assessment	240,315	189,073
Legal education programs	308,274	237,538
CPLIED fees	186,257	130,685
Call and admission fees	48,000	36,483
Miscellaneous	22,864	31,724
Investment income	20,847	54,731
Student admission fees	1,618	1,150
	<b>931,501</b>	<b>764,776</b>
<b>EXPENSES</b>		
Administrative charges	405,000	365,000
Call ceremony	11,343	8,320
Curriculum development	47,861	39,105
Equity initiative	34,778	31,137
Furniture and fixtures	4,735	2,099
Honoraria	69,495	57,929
Investment management fees	3,635	4,111
Miscellaneous	10,323	7,727
Office supplies and stationery	7,944	10,561
Photocopying and printing	41,472	47,303
Salaries	581,909	516,215
Seminars	146,180	84,254
Travel and professional development	20,970	18,046
Travel and lodging - students	37,134	25,901
	<b>1,422,779</b>	<b>1,217,708</b>
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<b>(491,278)</b>	<b>(452,932)</b>
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>953,065</b>	<b>1,389,488</b>
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>(21,044)</b>	<b>16,509</b>
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 440,743</b>	<b>\$ 953,065</b>



**THE LAW SOCIETY OF MANITOBA**  
**Statement of Endowment and Trust Funds**  
**Operations and Equity**  
**For the Year Ended March 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>FRANK BILLINKOFF LOAN FUND</b>		
Interest income	\$ -	\$ -
FUND EQUITY, BEGINNING OF YEAR	<b>2,188</b>	2,188
FUND EQUITY, END OF YEAR	<b>\$ 2,188</b>	\$ 2,188
<b>CRAWFORD SCHOLARSHIP AND PRIZE FUND</b>		
Investment income	\$ 75	\$ 23
Less scholarship paid	-	(100)
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	<b>75</b>	<b>(77)</b>
FUND EQUITY, BEGINNING OF YEAR	<b>5,807</b>	5,884
FUND EQUITY, END OF YEAR	<b>\$ 5,882</b>	\$ 5,807

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**1. PURPOSE OF THE ORGANIZATION**

The Law Society of Manitoba (the "Society") is a not-for-profit organization incorporated by a special act of the Manitoba Legislature. Its purpose is to uphold and protect the public interest in the delivery of legal services with competence, integrity and independence.

**2. NATURE OF FUND BALANCES**

The Law Society of Manitoba follows the restricted fund method of accounting and has established separate special purpose funds for the administration of specific programs.

*General Fund*

The purpose of the General Fund is to account for the general operations of the Society, including all property and equipment owned by the Society. Subsection 2(2) of The Legal Profession Act provides that in pursuing its purpose and carrying out its duties, the Society has all the powers and capacity of a natural person.

*Reimbursement Fund*

The Reimbursement Fund is continued under subsection 46(1) of The Legal Profession Act. The purpose of the Reimbursement Fund is to compensate claimants who have sustained pecuniary losses because of a member's or law corporation's misappropriation or wrongful conversion of the claimant's money or property.

*Professional Liability Claims Fund*

The Professional Liability Claims Fund is continued under subsection 45(2) of The Legal Profession Act. The purpose of the Claims Fund is to pay professional liability claims in accordance with the Act and the Law Society Rules.

*Education and Competence Program Fund*

The Education and Competence Program Fund was established for the purpose of regulating the admission of persons as students and their service under articles, providing instruction in law and regulating the call of persons to the Bar and the admission of solicitors. Subsection 3(2)(a) of The Legal Profession Act states that in pursuing its purpose, the Society must establish standards for the education, professional responsibility and competence of persons practicing or seeking the right to practice law in the province of Manitoba.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**2. NATURE OF FUND BALANCES (continued)**

*Endowment and Trust Funds*

a) *Frank Billinkoff Loan Fund*

The Frank Billinkoff Loan Fund was established in 1957 by the late Frank Billinkoff as a revolving loan fund to be lent to deserving law students, without interest, to permit them to continue their studies in law.

b) *Margaret Hypatia Crawford Scholarship and Prize Fund*

The Crawford Scholarship is a scholarship to the student with the highest standing in the final year at the Faculty of Law, University of Manitoba, and also awards prizes to the students with the second, third and fourth highest standings in the final year.

**3. FUTURE ACCOUNTING CHANGES**

The CICA has issued a new accounting framework applicable to Canadian non-profit organizations. Effective for fiscal years beginning on January 1, 2012, non-profit organizations will have to choose between International Financial Reporting Standards and Accounting Standards for Non-Profit Organizations, whichever suits them best. Early adoption of these standards is permitted. The Society will adopt the new accounting standards for non-profit organizations for its fiscal year beginning on April 1, 2012; however the impact of this transition has not yet been determined.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Society has elected to use the exemption provided by the CICA permitting not for profit organizations not to apply Sections 3862 and 3863 of the CICA Handbook which would otherwise have applied to the financial statements of the Society for the year ended March 31, 2012. The Society applies the requirements of Section 3861 of the CICA Handbook.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

a) *Revenue recognition*

Externally restricted contributions are deferred and recognized as revenue of the appropriate fund in the year which the related expenses are incurred.

Unrestricted contributions are recognized as revenue of the General Fund when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue of the appropriate fund when earned.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*b) Capital assets*

Capital assets are recorded at the lower of cost and market value, with the exception of the library and lockers, which are recorded at a nominal value and are not being amortized. Amortization on other assets is provided on a straight-line basis using the following rates:

Computer equipment	3 years
Furniture and equipment	5 years
Building	20 years

*c) Foreign currency translation*

All investments maintained in foreign currencies have been translated into Canadian dollars at the exchange rate in effect at March 31, 2012. Income from investments maintained in foreign currencies is translated at the month end spot rate for the month in which it is earned.

*d) Pension plan*

The cost of the Society's defined benefit pension plan is determined periodically by independent actuaries. The actuarial valuation is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past-service costs arising from plan amendments are amortized on a linear basis over the average remaining service period of employees active at the date of amendments.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, being 10 years (2011 – 11.1 years).

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

e) *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Society's designation of such instruments.

Classification

Cash and term deposits and Funds held in trust	Held for trading
Accounts and accrued interest receivable	Loans and receivables
Due from The Manitoba Law Library Inc.	Loans and receivables
Investments	Available for sale
Accounts payable and accrued liabilities	Other liabilities
Funds held in trust	Other liabilities

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in the unrestricted fund until realized when the cumulative gain or loss is transferred to investment income.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method. At March 31, 2012 carrying value approximates fair value.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments. At March 31, 2012 carrying value approximates fair value.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**4. SIGNIFICANT ACCOUNTING POLICIES (continued)**

e) *Financial instruments (continued)*

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, other liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The Society uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

f) *Statement of Cash Flows*

A statement of cash flows has not been provided as management is of the opinion that this statement would not provide additional useful information as cash flow information is readily apparent from the balance sheet and statements of fund operations and equity.

g) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the accrued pension benefit asset and reserve for outstanding professional liability claims and associated costs at the date of the financial statements and the reported amounts of amortization on capital assets during the reporting period. Actual results could differ from these estimates.

**5. INVESTMENTS**

Investments consist of certain guaranteed investments, stocks and bonds and are recorded at fair value. Certain of these investments and related earnings have been aggregated in one pool and are allocated amongst the funds. The year-end allocations are as follows:

	<u>2012</u>	<u>2011</u>
General Fund	6.71%	8.29%
Reimbursement Fund	1.28%	3.80%
Professional Liability Claims Fund	89.93%	83.43%
Education and Competence Program Fund	2.08%	4.48%
	<u>100.00%</u>	<u>100.00%</u>

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

**6. CAPITAL ASSETS**

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 186,000	\$ -	\$ 186,000	\$ -
Buildings	917,135	917,135	917,135	917,135
Computer equipment	250,548	239,469	245,325	234,432
Furniture and equipment	183,280	149,303	173,906	130,460
Library and lockers	1	-	1	-
	<b>1,536,964</b>	<b>1,305,907</b>	1,522,367	1,282,027
Cost less accumulated amortization		<b>\$ 231,057</b>		\$ 240,340

**7. PROFESSIONAL LIABILITY CLAIMS FUND CONTINGENT LIABILITY**

The Society records claims of the Professional Liability Claims Fund by accruing a reserve for outstanding claims and associated costs at March 31, 2012. Management has set aside the sum of \$6,882,000 (2011 - \$6,882,000) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$15,451,319 (2011 - \$15,939,376) and the entire fund equity of \$9,571,943 (2011 - \$10,096,949) are available to pay claims and expenses.

**8. REIMBURSEMENT FUND CONTINGENT LIABILITY**

Payment out of the fund is at the discretion of the governing body, the Reimbursement Fund Committee, or Society staff, within guidelines set by the governing body. Any claim payments which may occur will be accounted for in the year payment is approved.

**9. CLAIMS PAID AND COUNSEL FEES**

The claims paid and counsel fees reported in the Statement of Professional Liability Claims Funds are reported net of amounts recovered. The gross amounts are as follows:

	<u>2012</u>	<u>2011</u>
Claims paid		
Total expenses	743,752	880,755
Deductibles recovered	(232,748)	(142,652)
	<b>511,004</b>	738,103
Counsel Fees		
Total expenses	362,131	594,033
Recoveries	(36,607)	(410,261)
	<b>325,524</b>	183,772

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**10. PENSION PLAN**

The Society has a defined benefit pension plan, which covers substantially all employees. Pension benefits are based on length of service and final average earnings and are partially indexed for inflation after retirement.

The Society measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2010 and these financial statements reflect the extrapolation of information to March 31, 2012. The next required valuation will be as of December 31, 2011.

Information about the Society's defined benefit plans is as follows:

	<u>2012</u>	<u>2011</u>
Change in fair value of plan assets		
Balance at beginning of year	\$ 8,279,991	\$ 6,739,862
Employer contributions	943,097	911,998
Employee contributions	201,648	202,295
Actual return on plan assets	456,695	537,098
Benefits paid	(130,898)	(111,262)
<b>Fair value, end of year</b>	<b>9,750,533</b>	<b>8,279,991</b>
Change in accrued benefit obligation		
Balance at beginning of year	8,600,362	7,041,472
Current service cost	427,000	370,000
Interest cost on benefit obligation	549,292	476,184
Employee contributions	201,648	202,295
Benefits paid	(130,898)	(111,262)
Actuarial loss on accrued benefit obligation	1,540,150	621,673
<b>Benefit obligation, end of year</b>	<b>11,187,554</b>	<b>8,600,362</b>
Funded status		
Plan deficit	(1,437,021)	(320,371)
Unamortized net actuarial loss	3,691,992	2,221,783
<b>Accrued benefit asset, end of year</b>	<b>\$ 2,254,971</b>	<b>\$ 1,901,412</b>
	<u>2012</u>	<u>2011</u>
Canadian equities	27%	27%
Foreign equities	26%	26%
Fixed income	39%	39%
Short term investments	8%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>



**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2012**

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**10. PENSION PLAN (continued)**

	<u>2012</u>	<u>2011</u>
Defined benefit costs		
Current service cost	\$ 427,000	\$ 370,000
Interest cost on benefit obligation	549,292	476,184
Actual return on plan assets	(456,695)	(537,098)
Actuarial gain on accrued benefit obligation	1,540,150	621,673
<b>Costs arising in the period</b>	<b>\$ 2,059,747</b>	<b>\$ 930,759</b>
Adjustments for difference between costs arising in the period and costs recognized in the period		
Return on plan assets	(66,234)	76,295
Actuarial (gain) loss	(1,403,975)	(525,410)
<b>Total expense included in administrative expenses</b>	<b>\$ 589,538</b>	<b>\$ 481,644</b>

The significant assumptions used are as follows (weighted average):

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation as of March 31		
Discount rate	5.10%	6.00%
Rate of compensation increase	4.50%	4.50%
Benefit costs for the years ended March 31		
Discount rate	6.00%	6.30%
Expected long-term rate of return on plan assets	6.00%	6.60%
Rate of compensation increase	4.50%	4.50%

**11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK**

*Market risk*

Market risk is the risk of loss that results from fluctuations in equity prices, interest and exchange rates. The Society is exposed to market risk from its investing activities. The level of risk to which the Society is exposed varies depending on market conditions and the composition of the asset mix.

*Interest rate risk*

Interest rate risk refers to the adverse consequences of interest rate changes in the Society's cash flows, financial position, and income. This risk arises from differences in the timing and amount of cash flows related to the Society's assets and liabilities. The value of the Society's assets is affected by short-term changes in nominal interest rates and equity markets.

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**11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK (continued)**

*Interest rate risk (continued)*

In accordance with the asset mix strategy adopted in 2002, the Society has invested approximately 57% (2011 – 50%) of its investment assets in fixed income securities and 43% (2011 – 50%) in equities as at March 31, 2012. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates. The effective interest rate earned by the Society on bonds and debentures for the current period ending March 31, 2012 was 4.94% (2011 – 5.32%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2012 are as follows:

	<u>2012</u>	<u>2011</u>
<u>Term to Maturity</u>	<u>Market Value</u>	<u>Market Value</u>
Less than one year	\$ -	\$ -
One to five years	<b>2,787,681</b>	2,880,936
Five to ten years	<b>2,500,760</b>	3,564,419
Greater than ten years	<b>2,794,144</b>	2,721,638
	<b>\$ 8,082,585</b>	<b>\$ 9,166,993</b>

*Credit risk*

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the Society. At March 31, 2012 the Society's maximum credit risk exposure relates to bonds and debentures and short-term deposits totalling \$8,082,585 (2011 – \$9,166,993) The Society's concentration of credit risk as at March 31, 2012 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	<u>2012 Market Value</u>	<u>2011 Market Value</u>
Government of Canada and Government of Canada guaranteed	\$ <b>2,872,558</b>	\$ 2,628,406
Provincial and Provincial guaranteed Corporations	<b>1,894,967</b>	1,088,692
	<b>3,315,060</b>	5,449,895
	<b>\$ 8,082,585</b>	<b>\$ 9,166,993</b>

The Society limits interest rate risk and credit risk by investing in bonds and debentures of investees that are considered to be high quality credits and by utilizing an internal Investment Policy Guideline monitoring process that requires the weighted average credit rating of bonds held in the portfolio to be rated A or better.

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**11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK (continued)**

*Foreign currency risk*

Foreign currency exposure arises from the Society's holdings of investments denominated in foreign currencies. As at March 31, 2012 the Society's foreign currency exposure was \$3,575,804 (2011 - \$4,069,614). The Society does not use derivative instruments to reduce its exposure to foreign currency risk.

**12. COMPARATIVE FIGURES**

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