

Financial Statements of

THE LAW SOCIETY OF MANITOBA

March 31, 2013

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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, 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 and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of The Law Society of Manitoba as at March 31, 2013, March 31, 2012 and April 1, 2011, and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants

June 13, 2013
Winnipeg, Manitoba

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THE LAW SOCIETY OF MANITOBA
Statements of Financial Position
As at March 31, 2013, March 31, 2012, and April 1, 2011

	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Program Fund	Endowment and Trust Funds	March 31, 2013 Total	March 31, 2012 Total (Note 2)	April 1, 2011 Total (Note 2)
ASSETS								
Cash and term deposits	\$ 1,957,723	\$ -	\$ -	\$ -	\$ -	\$ 1,957,723	\$ 1,501,460	\$ 1,198,388
Funds held in trust	440,779	-	-	-	-	440,779	446,324	413,848
Accounts and accrued interest receivable	123,224	63,233	70,263	3,105	-	259,825	255,574	158,009
Due from The Manitoba Law Library Inc.	1,009,919	-	-	-	-	1,009,919	685,605	477,430
Prepaid expenses	16,696	34,839	233,941	-	-	285,476	232,899	204,819
Investments (Note 5)	719,770	244,325	15,510,817	398,021	5,000	16,877,933	17,186,030	19,110,151
Deferred charge - pension plan (Note 10)	2,139,403	-	-	-	-	2,139,403	2,254,971	1,901,412
Capital assets (Note 6)	217,233	-	-	-	-	217,233	231,057	240,340
	\$ 6,624,747	\$ 342,397	\$ 15,815,021	\$ 401,126	\$ 5,000	\$ 23,188,291	\$ 22,793,920	\$ 23,704,397
LIABILITIES AND FUND EQUITY								
Accounts payable and accrued liabilities	251,720	12,127	93,643	54,837	-	\$ 412,327	289,608	\$ 272,822
Funds held in trust	440,779	-	-	-	-	440,779	446,324	413,848
Fees and assessments paid in advance	1,179,628	187,000	569,691	208,474	-	2,144,793	1,924,482	1,221,853
Due to (from) other funds	2,563,786	(645,864)	(1,619,910)	(295,272)	(2,740)	-	-	-
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	6,882,000	-	-	6,882,000	6,882,000	6,882,000
Fund equity						-		
General Fund	2,188,834	-	-	-	-	2,188,834	2,535,560	2,394,404
Reimbursement Fund (Note 8)	-	789,134	-	-	-	789,134	695,190	1,461,461
Professional Liability Claims Fund (Note 7)	-	-	9,889,597	-	-	9,889,597	9,571,943	10,096,949
Education and Competence Program Fund	-	-	-	433,087	-	433,087	440,743	953,065
Endowment and Trust Funds						-		
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,552	5,552	5,882	5,807
	\$ 6,624,747	\$ 342,397	\$ 15,815,021	\$ 401,126	\$ 5,000	\$ 23,188,291	\$ 22,793,920	\$ 23,704,397

ON BEHALF OF THE BENCHERS

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THE LAW SOCIETY OF MANITOBA
Statements of General Fund Operations and Equity
For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Note 2)
REVENUE		
Annual fee		
Practising	\$ 2,878,007	\$ 2,835,719
Non-practising	28,300	26,500
Miscellaneous	123,953	137,790
Administration fees	41,525	22,350
Investment income	100,195	97,527
Current year change in fair value of investments	(12,441)	(2,197)
Costs recovered - discipline	63,780	146,236
	3,223,319	3,263,925
EXPENSES		
Amortization	17,402	23,879
Benchers' meeting expenses	35,136	43,269
Building maintenance	43,212	40,380
Discipline Committee expenses	122,717	188,679
Grant to Community Legal Education Association	60,000	60,000
Investment management fees	7,245	29,746
Library grant	400,000	550,000
Other grants and prizes	120,150	115,478
Office equipment and maintenance	41,885	46,189
Other office and sundry expenses	97,407	123,857
Printing, stationery and postage	122,076	129,880
Professional fees	27,363	30,911
Property taxes	11,997	11,649
Salaries and benefits	3,054,432	2,811,847
Travel	129,694	102,765
Utilities	29,329	29,240
Recovery of administrative charges	(750,000)	(1,215,000)
	3,570,045	3,122,769
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(346,726)	141,156
FUND EQUITY, BEGINNING OF YEAR	2,535,560	2,394,404
FUND EQUITY, END OF YEAR	\$ 2,188,834	\$ 2,535,560

THE LAW SOCIETY OF MANITOBA
Statements of Reimbursement Fund Operations and Equity
For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Note 2)
REVENUE		
Annual assessments	\$ 439,148	\$ 192,255
Investment income	16,342	14,837
Current year change in fair value of investments	8,606	(24,197)
Recovery of claims	-	10,300
Grant from Manitoba Law Foundation	154,733	103,326
	618,829	296,521
EXPENSES		
Administrative charges	-	405,000
Claims	62,825	115,213
Insurance	139,314	178,786
Investment management fees	1,585	2,823
Legal and investigation	40,812	48,278
Salaries	269,706	304,279
Travel	10,643	8,413
	524,885	1,062,792
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	93,944	(766,271)
FUND EQUITY, BEGINNING OF YEAR	695,190	1,461,461
FUND EQUITY, END OF YEAR	\$ 789,134	\$ 695,190

THE LAW SOCIETY OF MANITOBA
Statements of Professional Liability Claims Fund
Operations and Equity
For the Years Ended March 31, 2013 and 2012

	2013	2012 (Note 2)
REVENUE		
Insurance premiums paid by members	\$ 1,978,174	\$ 1,021,405
Investment income	1,135,162	744,358
Current year change in fair value of investments	433,082	268,077
Miscellaneous income	225	1,558
	3,546,643	2,035,398
EXPENSES		
Administrative charges	450,000	405,000
Claims paid (Note 9)	861,931	511,004
Counsel fees (Note 9)	406,640	325,524
Investment management fees	108,418	97,276
Lawyers at Risk	61,845	67,210
Library grant	60,000	50,000
Actuarial fees	29,516	34,019
Office and sundry expenses	10,687	27,252
Premiums	881,709	684,429
Salaries	328,779	325,186
Practice advisor	29,464	33,504
	3,228,989	2,560,404
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	317,654	(525,006)
FUND EQUITY, BEGINNING OF YEAR	9,571,943	10,096,949
FUND EQUITY, END OF YEAR	\$ 9,889,597	\$ 9,571,943

THE LAW SOCIETY OF MANITOBA
Statements of Education and Competence Program Fund
Operations and Equity
For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Note 2)
REVENUE		
Grant from Manitoba Law Foundation	\$ 154,733	\$ 103,326
Legal education assessment	390,309	240,315
Legal education programs	496,404	308,274
CPLED fees	166,042	186,257
Call and admission fees	62,497	48,000
Miscellaneous	35,067	22,864
Investment income	26,556	20,847
Current year change in fair value of investments	14,020	(21,044)
Student admission fees	2,369	1,618
	1,347,997	910,457
EXPENSES		
Administrative charges	300,000	405,000
Call ceremony	12,877	11,343
Curriculum development	54,967	47,861
Equity initiative	29,619	34,778
Furniture and fixtures	3,772	4,735
Honoraria	59,790	69,495
Investment management fees	2,582	3,635
Miscellaneous	16,428	10,323
Office supplies and stationery	7,144	7,944
Photocopying and printing	40	41,472
Salaries	621,633	581,909
Seminars	213,735	146,180
Travel and professional development	15,396	20,970
Travel and lodging - students	17,670	37,134
	1,355,653	1,422,779
EXCESS OF EXPENSES OVER REVENUE	(7,656)	(512,322)
FUND EQUITY, BEGINNING OF YEAR	440,743	953,065
FUND EQUITY, END OF YEAR	\$ 433,087	\$ 440,743

THE LAW SOCIETY OF MANITOBA
Statements of Endowment and Trust Funds Operations and Equity
For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
		(Note 2)
FRANK BILLINKOFF LOAN FUND		
FUND EQUITY, BEGINNING OF YEAR	\$ 2,188	\$ 2,188
FUND EQUITY, END OF YEAR	\$ 2,188	\$ 2,188
MARGARET HYPATIA CRAWFORD SCHOLARSHIP AND PRIZE FUND		
Investment income	\$ (330)	\$ 75
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(330)	75
FUND EQUITY, BEGINNING OF YEAR	5,882	5,807
FUND EQUITY, END OF YEAR	\$ 5,552	\$ 5,882

THE LAW SOCIETY OF MANITOBA
Statements of Cash Flows
For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u> (Note 2)
OPERATING ACTIVITIES		
(Deficiency) excess of revenue over expenses:		
General Fund	\$ (346,726)	\$ (141,156)
Reimbursement Fund	93,944	(766,271)
Professional Liability Claims Fund	317,654	(525,006)
General Education and Competence Program Fund	(7,656)	(512,322)
Endowment and Trust Funds	(330)	75
 Items not affecting cash:		
Amortization	17,402	23,879
Current year change in fair value of investments	(443,267)	220,639
Net change in non-cash working capital	(38,112)	385,595
	<u>(407,091)</u>	<u>1,032,255</u>
INVESTING ACTIVITIES		
Purchase of investments	(1,248,636)	(1,296,518)
Sale of investments	2,000,000	3,000,000
Purchase of capital assets	(3,578)	(14,596)
	<u>747,786</u>	<u>(1,688,886)</u>
FINANCING ACTIVITIES		
Decrease in deferred charge - pension plan	115,568	(353,559)
	<u>115,568</u>	<u>353,559</u>
 INCREASE IN CASH AND TERM DEPOSITS	 456,263	 303,072
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	1,501,460	1,198,388
CASH AND TERM DEPOSITS, END OF YEAR	\$ 1,957,723	\$ 1,501,460

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

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, 2013

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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations 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.

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

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013. 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 straight line 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 (2012 – 11.1 years).

e) Financial instruments

The Society initially measures its financial assets and financial liabilities at fair value. It subsequently measures the following financial assets and financial liabilities at amortized cost: cash and term deposits, accounts and accrued interest receivable, prepaid expenses, accounts payable and accrued liabilities and fees and assessments paid in advance.

The Society has elected at the date of transition to accounting standards for not-for-profit organizations to measure all its investments at fair value.

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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) 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.

4. ADOPTION OF A NEW ACCOUNTING FRAMEWORK

During the year ended March 31, 2013, the Society adopted the new accounting standards for not-for-profit organizations (the "new standards") issued by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with Section 1501 of the CICA Handbook, First-time Adoption for Not-for-Profit Organizations, ("Section 1501"), the date of transition to the new standards is April 1, 2011 and the Society has prepared and presented an opening statement of financial position as at the date of transition to the new standards. This opening statement of financial position is the starting point for the Society's accounting under the new standards.

In its opening statement of financial position, under the recommendations of Section 1501, the Society:

- (a) recognized all assets and liabilities whose recognition is required by the new standards;
- (b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- (c) reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and
- (d) applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented.

There was no significant impact of the adoption of the new standards on the statement of financial position as at April 1, 2011 or the statements of operations and changes in net assets or cash flows for the year ended March 31, 2012.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

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>2013</u>	<u>2012</u>	<u>2011</u>
General Fund	4.27%	6.71%	8.29%
Reimbursement Fund	1.45%	1.28%	3.80%
Professional Liability Claims Fund	91.93%	89.93%	83.43%
Education and Competence Program Fund	2.35%	2.08%	4.48%
	100%	100%	100%

6. CAPITAL ASSETS

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 186,000	\$ -	\$186,000	\$ -	\$186,000	\$ -
Building	917,135	917,135	917,135	917,135	917,135	917,135
Computer equipment	254,126	243,599	250,548	239,469	245,325	234,432
Furniture and equipment	183,280	162,575	183,280	149,303	173,906	130,460
Library and lockers	1	-	1	-	1	-
	1,540,542	1,323,309	1,536,964	1,305,907	1,522,367	1,282,027
Net Book Value	\$ 217,233		\$ 231,057		\$ 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, 2013. Management has set aside the sum of \$6,882,000 (2012 - \$6,882,000, 2011 - \$6,882,000) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$15,510,817 (2012 - \$15,451,319, 2011 - \$15,939,376) and the entire fund equity of \$9,889,597 (2012 - \$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.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

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>2013</u>	<u>2012</u>
Claims paid		
Total expenses	1,652,363	743,752
Recoveries	(790,432)	(232,748)
	<u>861,931</u>	<u>511,004</u>
Counsel fees		
Total expenses	472,470	362,131
Recoveries	(65,830)	(36,607)
	<u>406,640</u>	<u>325,524</u>

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, 2011 and these financial statements reflect the extrapolation of information to March 31, 2013. The next required valuation will be as of December 31, 2012.

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

	<u>2013</u>	<u>2012</u>
Change in fair value of plan assets:		
Balance at beginning of year	\$ 9,750,533	\$ 8,279,991
Employer contributions	827,168	943,097
Employee contributions	216,548	201,648
Actual return on plan assets	1,112,411	456,695
Benefits paid	(122,203)	(130,898)
Fair value, end of year	<u>11,784,457</u>	<u>9,750,533</u>
Change in accrued benefit obligation:		
Balance at beginning of year	11,187,554	8,600,362
Current service cost	636,000	427,000
Interest cost on benefit obligation	610,039	549,292
Employee contributions	216,548	201,648
Benefits paid	(122,203)	(130,898)
Actuarial loss on accrued benefit obligation	682,470	1,540,150
Benefit obligation, end of year	<u>13,210,408</u>	<u>11,187,554</u>

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

10. PENSION PLAN (continued)

Funded status:		
Plan deficit	(1,425,951)	(1,437,021)
Unamortized net actuarial loss	3,565,354	3,691,992
Accrued benefit asset, end of year	\$ 2,139,403	\$ 2,254,971

	(Percentage of plan assets)	
	2013	2012
Canadian equities	27%	27%
Foreign equities	26%	26%
Fixed income	39%	39%
Short term investments	8%	8%
Total	100%	100%

	2013	2012
Defined benefit costs:		
Current service cost	\$ 636,000	\$ 427,000
Interest cost on benefit obligation	610,039	549,292
Actual return on plan assets	(1,112,411)	(456,695)
Actuarial loss on accrued benefit obligation	682,470	1,540,150
Costs arising in the period	\$ 816,098	\$ 2,059,747

Adjustments for difference between costs arising in the period and costs recognized in the period:		
Return on plan assets	572,814	(66,234)
Actuarial gain	(446,176)	(1,403,975)
Total expense included in administrative expenses	\$ 942,736	\$ 589,538

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

	2013	2012
Accrued benefit obligation as of March 31		
Discount rate	4.40%	5.10%
Rate of compensation increase	4.50%	4.50%
Benefit costs for the years ended March 31		
Discount rate	5.10%	6.00%
Expected long-term rate of return on plan assets	5.25%	6.00%
Rate of compensation increase	4.50%	4.50%

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2013

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.

Interest rate risk (continued)

In accordance with the asset mix strategy adopted in 2002, the Society has invested approximately 57% (2012 – 57%, 2011 – 50%) of its investment assets in fixed income securities and 43% (2012 – 43%, 2011 – 50%) in equities as at March 31, 2013. 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, 2013 was 3.73% (2012 – 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, 2013 are as follows:

	<u>2013</u> <u>Market</u> <u>Value</u>	<u>2012</u> <u>Market</u> <u>Value</u>	<u>2011</u> <u>Market</u> <u>Value</u>
Less than one year	-	-	-
One to five years	2,333,334	2,787,681	2,880,936
Professional Liability Claims Fund	3,806,273	2,500,760	3,564,419
Education and Competence Program Fund	1,779,072	2,794,144	2,721,638
	7,918,679	8,802,585	9,166,993

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

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, 2013 the Society's maximum credit risk exposure relates to bonds and debentures and short-term deposits totalling \$7,910,819 (2012 – \$8,082,585, 2011 - \$9,166,993) The Society's concentration of credit risk as at March 31, 2013 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	2013 Market Value	2012 Market Value
Government of Canada and Government of Canada guaranteed	\$ 2,407,814	\$ 2,872,558
Provincial and Provincial guaranteed	2,358,338	1,894,967
Municipal and Municipal guaranteed	277,127	-
Corporations	2,875,400	3,315,060
	\$ 7,918,679	\$ 8,802,585

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.

Foreign currency risk

Foreign currency exposure arises from the Society's holdings of investments denominated in foreign currencies. As at March 31, 2013 the Society's foreign currency exposure was \$3,816,452 (2012 - \$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.