

*Financial Statements of*

**THE LAW SOCIETY OF MANITOBA**

*March 31, 2011*

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## 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, 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 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, 2011, 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  
Winnipeg, Manitoba  
June 23, 2011

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# THE LAW SOCIETY OF MANITOBA

## Balance Sheet

As at March 31, 2011

	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Program Fund	Endowment and Trust Funds	2011 Total	2010 Total
<b>ASSETS</b>							
Cash and term deposits	\$ 1,198,288	\$ -	\$ -	\$ 100	\$ -	\$ 1,198,388	\$ 2,205,932
Funds held in trust	413,848	-	-	-	-	413,848	415,548
Accounts and accrued interest receivable	518,260	4,839	106,247	5,705	388	635,439	517,682
Prepaid expenses	4,842	53,025	145,150	1,802	-	204,819	210,472
Investments (Note 5)	1,584,442	726,100	15,939,376	855,233	5,000	19,110,151	20,074,797
Accrued pension benefit asset (Note 9)	1,901,412	-	-	-	-	1,901,412	1,432,246
Capital assets (Note 6)	240,340	-	-	-	-	240,340	253,870
	<b>\$ 5,861,432</b>	<b>\$ 783,964</b>	<b>\$ 16,190,773</b>	<b>\$ 862,840</b>	<b>\$ 5,388</b>	<b>\$ 23,704,397</b>	<b>\$ 25,110,547</b>
<b>LIABILITIES AND FUND EQUITIES</b>							
Accounts payable and accrued liabilities	\$ 58,319	\$ 117,135	\$ 80,627	\$ 16,741	\$ -	\$ 272,822	\$ 731,902
Funds held in trust	413,848	-	-	-	-	413,848	415,548
Fees and assessments paid in advance	896,413	60,252	189,875	75,313	-	1,221,853	1,103,490
Due to (from) other funds	2,098,448	(854,884)	(1,058,678)	(182,279)	(2,607)	-	-
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	6,882,000	-	-	6,882,000	6,882,000
Fund equity							
General Fund	2,394,404	-	-	-	-	2,394,404	2,198,434
Reimbursement Fund (Note 8)	-	1,461,461	-	-	-	1,461,461	2,039,677
Professional Liability Claims Fund (Note 7)	-	-	10,096,949	-	-	10,096,949	10,341,936
Education and Competence Program Fund	-	-	-	953,065	-	953,065	1,389,488
Endowment and Trust Funds							
Frank Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,807	5,807	5,884
	<b>\$ 5,861,432</b>	<b>\$ 783,964</b>	<b>\$ 16,190,773</b>	<b>\$ 862,840</b>	<b>\$ 5,388</b>	<b>\$ 23,704,397</b>	<b>\$ 25,110,547</b>

ON BEHALF OF THE BENCHERS

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**THE LAW SOCIETY OF MANITOBA**  
**Statement of General Fund Operations and Equity**  
**For the Year Ended March 31, 2011**

	<u>2011</u>	<u>2010</u>
<b>REVENUE</b>		
Annual fee		
Practising	<b>\$ 2,599,743</b>	\$ 2,321,729
Non-practising	<b>26,600</b>	26,075
Miscellaneous	<b>106,912</b>	95,696
Administration fees	<b>23,600</b>	19,950
Net investment income	<b>112,484</b>	121,430
Costs recovered - discipline	<b>116,028</b>	106,864
	<b>2,985,367</b>	2,691,744
<b>EXPENSES</b>		
Amortization	<b>27,132</b>	23,386
Benchers' meeting expenses	<b>46,646</b>	58,113
Building maintenance	<b>42,535</b>	54,178
Discipline Committee expenses	<b>197,563</b>	203,932
Grant to Community Legal Education Assoc.	<b>60,000</b>	60,000
Library grant	<b>575,000</b>	550,000
Other grants and prizes	<b>104,638</b>	105,290
Office equipment and maintenance	<b>63,862</b>	54,231
Other office and sundry expenses	<b>110,628</b>	93,115
Printing, stationery and postage	<b>137,331</b>	112,406
Professional fees	<b>48,854</b>	36,038
Property taxes	<b>11,529</b>	35,434
Salaries and benefits	<b>2,371,040</b>	1,895,650
Travel	<b>66,426</b>	59,451
Utilities	<b>31,457</b>	34,351
Recovery of administrative charges	<b>(1,095,000)</b>	(750,000)
	<b>2,799,641</b>	2,625,575
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>185,726</b>	66,169
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>2,198,434</b>	1,968,856
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>10,244</b>	163,409
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 2,394,404</b>	\$ 2,198,434

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Reimbursement Fund Operations and Equity**  
**For the Year Ended March 31, 2011**

	<u>2011</u>	<u>2010</u>
REVENUE		
Annual assessments	\$ 189,073	\$ 185,706
Net investment income	50,207	66,280
Recovery of claims	11,802	-
Grant from Manitoba Law Foundation	83,392	313,405
	<u>334,474</u>	<u>565,391</u>
EXPENSES		
Administrative charges	365,000	100,000
Claims	-	13,523
Insurance	220,862	248,671
Legal and investigation	-	2,286
Salaries	311,845	302,652
Travel	8,660	13,406
	<u>906,367</u>	<u>680,538</u>
EXCESS OF EXPENSES OVER REVENUE	(571,893)	(115,147)
FUND EQUITY, BEGINNING OF YEAR	2,039,677	2,057,028
CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS	(6,323)	97,796
FUND EQUITY, END OF YEAR	<u>\$ 1,461,461</u>	<u>\$ 2,039,677</u>

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Professional Liability Claims Fund**  
**Operations and Equity**  
**For the Year Ended March 31, 2011**

	<u>2011</u>	<u>2010</u>
<b>REVENUE</b>		
Insurance premiums paid by members	\$ 898,895	\$ 634,125
Net investment income	983,639	1,012,768
Interest on deductibles	445	-
	<u>1,882,979</u>	<u>1,646,893</u>
<b>EXPENSES</b>		
Administrative charges	365,000	325,000
Claims paid	738,103	1,372,987
Counsel fees	183,772	262,312
Lawyers at Risk	56,123	61,685
Office and sundry expenses	95,290	295,351
Premiums	578,600	520,847
Salaries	325,152	328,742
Practice advisor	33,391	33,085
	<u>2,375,431</u>	<u>3,200,009</u>
EXCESS OF EXPENSES OVER REVENUE	(492,452)	(1,553,116)
DISTRIBUTION OF CLIA SURPLUS	-	43,201
EXCESS OF EXPENSES OVER REVENUE	(492,452)	(1,509,915)
FUND EQUITY, BEGINNING OF YEAR	10,341,936	10,346,858
CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS	247,465	1,504,993
FUND EQUITY, END OF YEAR	<u>\$ 10,096,949</u>	<u>\$ 10,341,936</u>

**THE LAW SOCIETY OF MANITOBA**  
**Statement of Education and Competence Program Fund**  
**Operations and Equity**  
**For the Year Ended March 31, 2011**

	<u>2011</u>	<u>2010</u>
<b>REVENUE</b>		
Grant from Manitoba Law Foundation	\$ 83,392	\$ 313,405
Legal education assessment	189,073	185,712
Legal education programs	237,538	304,434
CPLED fees	130,685	114,994
Call and admission fees	36,483	45,506
Miscellaneous	31,724	25,543
Net investment income	50,620	44,282
Student admission fees	1,150	710
	<b>760,665</b>	<b>1,034,586</b>
<b>EXPENSES</b>		
Administrative charges	365,000	325,000
Call ceremony	8,320	8,434
Curriculum development	39,105	31,735
Furniture and fixtures	2,099	3,469
Honoraria	57,929	55,483
Miscellaneous	38,864	24,744
Office supplies and stationery	10,561	13,025
Photocopying and printing	47,303	46,606
Salaries	516,215	490,990
Seminars	84,254	83,657
Travel and professional development	18,046	17,160
Travel and lodging - students	25,901	26,699
	<b>1,213,597</b>	<b>1,127,002</b>
<b>EXCESS OF EXPENSES OVER REVENUE</b>	<b>(452,932)</b>	<b>(92,416)</b>
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>1,389,488</b>	<b>1,416,532</b>
<b>CURRENT YEAR CHANGE IN FAIR VALUE OF INVESTMENTS</b>	<b>16,509</b>	<b>65,372</b>
<b>FUND EQUITY, END OF YEAR</b>	<b>\$ 953,065</b>	<b>\$ 1,389,488</b>



**THE LAW SOCIETY OF MANITOBA**  
**Statement of Endowment and Trust Funds Operations and Equity**  
**For the Year Ended March 31, 2011**

	<u>2011</u>	<u>2010</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	\$ 23	\$ 43
Less scholarship paid	<b>100</b>	120
Excess of expense over revenue	<b>(77)</b>	(77)
FUND EQUITY, BEGINNING OF YEAR	<b>5,884</b>	5,961
FUND EQUITY, END OF YEAR	<b>\$ 5,807</b>	\$ 5,884

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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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 Manitoba.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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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**

In December 2010, the Accounting Standards Board issued a new accounting framework applicable to not-for-profit organizations in the private sector. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations in the private sector will have to choose between International Financial Reporting Standards and Account Standards for Not-for-Profit Organizations, whichever suits them best. The Society currently plans to adopt Accounting Standards for Not-for-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, 2011. The Society applies the requirements of Section 3861 of the CICA Handbook.

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, 2011**

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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 United States currency have been translated into Canadian dollars at the exchange rate in effect at March 31, 2011. Income from investments maintained in United States currency 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 11.1 years (2010 – 9.86 years).

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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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	Held for trading
Accounts and accrued interest receivable	Loans and receivables
Investments	Available for sale
Accounts payable and accrued liabilities	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, 2011 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, 2011 carrying value approximates fair value.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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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.

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>2011</u>	<u>2010</u>
General Fund	8.29%	9.78%
Reimbursement Fund	3.80%	5.86%
Professional Liability Claims Fund	83.43%	80.45%
Education and Competence Program Fund	4.48%	3.91%
	<hr/> <b>100.00%</b>	<hr/> <b>100.00%</b>

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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**6. CAPITAL ASSETS**

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 186,000	\$ -	\$ 186,000	\$ -
Buildings	917,135	917,135	917,135	917,135
Computer equipment	245,325	234,432	238,157	229,685
Furniture and equipment	173,906	130,460	167,472	108,075
Library and lockers	1	-	1	-
	<b>1,522,367</b>	<b>1,282,027</b>	<b>1,508,765</b>	<b>1,254,895</b>
Cost less accumulated amortization	<b>\$ 240,340</b>		<b>\$ 253,870</b>	

**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, 2011. Management has set aside the sum of \$6,882,000 (2010 - \$6,882,000) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$15,939,376 (2010 - \$16,145,480) and the entire fund equity of \$10,096,949 (2010 - \$10,341,936) 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. 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, 2006 and these financial statements reflect the extrapolation of information to March 31, 2011.

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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**9. PENSION PLAN (continued)**

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

	<u>2011</u>	<u>2010</u>
Change in fair value of plan assets		
Balance at beginning of year	\$ 6,739,862	\$ 5,292,410
Employer contributions	911,998	385,333
Employee contributions	202,295	203,557
Actual return on plan assets	537,098	957,771
Benefits paid	(111,262)	(99,209)
<b>Fair value, end of year</b>	<b>8,279,991</b>	<b>6,739,862</b>
Change in accrued benefit obligation		
Balance at beginning of year	7,041,472	3,450,879
Current service cost	370,000	123,000
Interest cost on benefit obligation	476,184	320,254
Employee contributions	202,295	203,557
Benefits paid	(111,262)	(99,209)
Actuarial loss (gain) on accrued benefit obligation	621,673	3,042,991
<b>Benefit obligation, end of year</b>	<b>8,600,362</b>	<b>7,041,472</b>
Funded status		
Plan deficit	(320,371)	(301,610)
Unamortized net actuarial (gain) loss	2,221,783	1,772,668
Accrued benefit asset, end of year	1,901,412	1,471,058
Less reimbursed contributions	-	(38,812)
<b>Accrued benefit asset, end of year</b>	<b>\$ 1,901,412</b>	<b>\$ 1,432,246</b>
	Percentage of plan assets	
	<u>2011</u>	<u>2010</u>
Canadian equities	27%	31%
Foreign equities	26%	23%
Fixed income	39%	45%
Short term investments	8%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>



**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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**9. PENSION PLAN (continued)**

	<u>2011</u>	<u>2010</u>
Defined benefit costs		
Current service cost	\$ 370,000	\$ 123,000
Interest cost on benefit obligation	476,184	320,254
Actual return on plan assets	(537,098)	(957,771)
Actuarial gain on accrued benefit obligation	621,673	3,042,991
<b>Costs arising in the period</b>	<b>930,759</b>	<b>2,582,474</b>
Adjustments for difference between costs arising in the period and costs recognized in the period		
Return on plan assets	76,295	570,537
Actuarial (gain) loss	(525,410)	(3,066,353)
Transition asset	-	(32,464)
<b>Total expense included in administrative expenses</b>	<b>\$ 481,644</b>	<b>\$ 54,194</b>

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

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation as of March 31		
Discount rate	6.00%	6.30%
Rate of compensation increase	4.50%	4.50%
Benefit costs for the years ended March 31		
Discount rate	6.30%	8.60%
Expected long-term rate of return on plan assets	6.60%	7.00%
Rate of compensation increase	4.50%	3.70%

**THE LAW SOCIETY OF MANITOBA**  
**Notes to the Financial Statements**  
**March 31, 2011**

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**10. 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.

In accordance with the asset mix strategy adopted in 2002, the Society has invested approximately 50% of its investment assets in fixed income securities and 50% in equities as at March 31, 2011. 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, 2011 was 5.32% (2010 – 5.64%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2011 are as follows:

	<u>2011</u>	<u>2010</u>
<u>Term to Maturity</u>	<u>Market Value</u>	<u>Market Value</u>
Less than one year	\$ -	\$ 526,243
One to five years	<b>2,880,936</b>	3,540,211
Five to ten years	<b>3,564,419</b>	3,361,378
Greater than ten years	<b>2,721,638</b>	3,710,838
	<b>\$ 9,166,993</b>	<b>\$ 11,138,670</b>

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**10. 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, 2011 the Society's maximum credit risk exposure relates to bonds and debentures and short-term deposits totalling \$9,166,993. The Society's concentration of credit risk as at March 31, 2011 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	<b>2011 Market Value</b>	<b>2010 Market Value</b>
Government of Canada and Government of Canada guaranteed	\$ 2,628,406	\$ 1,626,111
Provincial and Provincial guaranteed Corporations	1,088,692	1,144,135
	<b>5,449,895</b>	<b>8,368,424</b>
	<b>\$ 9,166,993</b>	<b>\$ 11,138,670</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.

*Foreign currency risk*

Foreign currency exposure arises from the Society's holdings of investments denominated in foreign currencies. As at March 31, 2011 the Society's foreign currency exposure was \$4,069,614 (2010 - \$4,682,261). The Society does not use derivative instruments to reduce its exposure to foreign currency risk.