

**Saskatchewan Lawyers' Insurance
Association Inc.**

Financial Statements
June 30, 1999

Saskatchewan Lawyers' Insurance Association Inc.

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For the year ended June 30, 1999

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August 25, 1999

Auditors' Report

**To the Member of
Saskatchewan Lawyers' Insurance Association Inc.**

We have audited the balance sheet of **Saskatchewan Lawyers' Insurance Association Inc.** as at June 30, 1999 and the statements of income and member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at June 30, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

Saskatchewan Lawyers' Insurance Association Inc.

Balance Sheet

As at June 30, 1999

	1999	1998
	\$	\$ (restated note 5)
Assets		
Cash and short-term investments (note 3)	4,542,802	4,384,036
Accrued interest receivable	--	57,892
Accounts receivable	39,636	58,832
Marketable securities (note 4)	5,354,539	4,669,599
	<u>9,936,977</u>	<u>9,170,359</u>
Liabilities		
Accounts payable and accrued liabilities	154,161	219,617
Annual fees received in advance	2,492,000	3,008,400
Due to Canadian Lawyers' Insurance Association (note 5)	367,306	791,111
Provision for unpaid claims and expenses (note 6)	2,272,646	2,345,778
Due to Law Society of Saskatchewan	24,179	66,130
	<u>5,310,292</u>	<u>6,431,036</u>
Equity		
Member's equity (note 5)	4,626,685	2,739,323
	<u>9,936,977</u>	<u>9,170,359</u>

Approved by the Board of Directors

Director

Director

Saskatchewan Lawyers' Insurance Association Inc.

Statement of Income and Member's Equity

For the year ended June 30, 1999

	1999 \$	1998 \$ (restated note 5)
Revenue		
Annual premiums	3,197,156	3,165,688
Less premiums remitted to Canadian Lawyers' Insurance Association:		
Current year premium	1,276,335	1,091,58
Retroassessment (credit) levy (note 5)	(254,000)	128,000
	<u>1,022,335</u>	<u>1,219,580</u>
Net premiums	2,174,821	1,946,108
Claims expenses (note 7)	<u>384,808</u>	<u>434,253</u>
Excess of premiums over claims expenses	<u>1,790,013</u>	<u>1,511,855</u>
Other income (expense)		
Interest and dividends	412,032	344,694
(Loss) gain on disposal of investments	(8,952)	312,748
	<u>403,080</u>	<u>657,442</u>
Income before administrative expenditures	<u>2,193,093</u>	<u>2,169,297</u>
Administrative expenditures		
Actuarial study	9,000	10,222
Bad debts	--	7,500
Committee meetings	2,892	6,389
Loss prevention	1,881	2,787
Management fee (note 8)	87,240	87,240
Office	61,834	11,826
Professional services	34,851	32,217
Salaries	108,033	71,280
Title insurance project	--	12,000
	<u>305,731</u>	<u>241,461</u>
Net income for the year	1,887,362	1,927,836
Member's equity – Beginning of year (note 5)	<u>2,739,323</u>	<u>811,487</u>
Member's equity - End of year	<u>4,626,685</u>	<u>2,739,323</u>

Saskatchewan Lawyers' Insurance Association Inc.
Statement of Cash Flows
For the year ended June 30, 1999

	1999	1998
	\$	\$
		(restated note 5)
Cash provided by (used in)		
Operating activities		
Net income for the year	1,887,362	1,927,836
Items not affecting cash		
Amortization of premium and discount on marketable securities	22,296	46,864
Loss (gain) on disposal of investments	8,952	(312,748)
Stock dividends	--	(26,116)
	<u>1,918,610</u>	<u>1,635,836</u>
Change in non-cash operating balances		
Accrued interest receivable	57,892	6,782
Accounts receivable	19,196	134,889
Accounts payable and accrued liabilities	(65,456)	38,253
Annual fees received in advance	(516,400)	62,400
Due to Canadian Lawyers' Insurance Association	(423,805)	25,239
Provision for unpaid claims and expenses	(73,132)	(846,105)
Due to Law Society of Saskatchewan	(41,951)	(25,804)
	<u>(1,043,656)</u>	<u>(604,346)</u>
	<u>874,954</u>	<u>1,031,490</u>
Investing activities		
Purchase of marketable securities	(18,197,358)	(7,380,592)
Proceeds on sale of marketable securities	17,481,170	8,003,464
	<u>(716,188)</u>	<u>622,872</u>
Increase in cash and short-term investments during the year	<u>158,766</u>	<u>1,654,362</u>
Cash and short-term investments - Beginning of year	<u>4,384,036</u>	<u>2,729,674</u>
Cash and short-term investments - End of year	<u>4,542,802</u>	<u>4,384,036</u>

Saskatchewan Lawyers' Insurance Association Inc.

Notes to Financial Statements

June 30, 1999

1 Nature of operations

The Saskatchewan Lawyers' Insurance Association Inc. ("SLIA") is incorporated under the Non-Profit Corporations Act of Saskatchewan. Its primary purpose is to provide professional liability insurance to the members of the Law Society of Saskatchewan.

SLIA has been a member of the Canadian Lawyers' Insurance Association ("CLIA"), a reciprocal insurance exchange, since policy year 1988/89. Claims paid by SLIA are subject to a series of limits which are described below. Of these amounts, \$5,000 to \$10,000 is recoverable from the insured member in the form of a deductible.

SLIA's retention per claim

The maximum amount paid by SLIA is \$100,000 per claim.

Insurer's retention per claim

Claims paid in excess of \$100,000 are covered by insurance to a maximum of \$1,000,000.

Annual aggregate limit

Beginning in policy year 1997/98, an aggregate limit was introduced providing an annual cap on claims per insured of \$2,000,000.

SLIA's retention per policy year

Commencing with policy year 1988/89, pursuant to a stop loss and management agreement, SLIA's aggregate payments shall not exceed a specific sum during the year concerned, calculated exclusive of individual insured's deductibles, adjuster fees and Counsel fees.

The annual sum for each year concerned is as follows:

Year of Claim	Amount
	\$
1988/89	900,000
1989/90	900,000
1990/91	1,200,000
1991/92	1,150,000
1992/93	1,300,000
1993/94	1,400,000
1994/95	1,600,000
1995/96	1,550,000
1996/97	1,650,000
1997/98	1,800,000
1998/99	1,900,000

Saskatchewan Lawyers' Insurance Association Inc.

Notes to Financial Statements

June 30, 1999

Firms of Law Society of Saskatchewan members may elect to purchase excess insurance coverage from CLIA. Premiums for this excess coverage are not reflected in these accounts.

2 Accounting policies

Annual fees received in advance

Annual fees received in advance are deferred and recognized as revenue over the applicable membership period.

Income taxes

The Association is exempt from income taxes under Section 149(1)(1) of The Income Tax Act.

Marketable securities

The carrying value of marketable securities is reduced where there has been a decline in value that is other than temporary. Such reductions, if any, are included in income from investments.

Provision for unpaid claims and expenses

Provision for unpaid claims and expenses represents the estimated amount to settle all claims and expenses for counsel, legal and adjusters' fees for claims reported to SLIA up to the end of the fiscal year.

The process of determining the provisions involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

These provisions are continually reviewed with all changes in estimated claim amounts being recorded as claims expense in the period in which the change in estimate is determined.

CLIA retroassessments

The insuring agreements between SLIA and CLIA allow for assigning certain retroassessment credits or levies each policy year. These retroassessments are accrued in full in the policy year in which they are declared by CLIA.

Saskatchewan Lawyers' Insurance Association Inc.

Notes to Financial Statements

June 30, 1999

3 Cash and short-term investments

	1999	1998
	\$	\$
Cash 3,190,062	1,828,510	
Money market fund	1,352,740	616,786
Banker's Acceptances	--	1,938,740
	<u>4,542,802</u>	<u>4,384,036</u>

The money market investment represents units in a money market fund managed by Greystone Capital Management Inc.

4 Marketable securities

	1999		1998	
	Cost	Market	Cost	Market
	\$	\$	\$	\$
Fixed income investments	4,870,209	4,870,209	4,309,072	4,398,625
Canadian equities	484,330	541,442	360,527	451,121
	<u>5,354,539</u>	<u>5,411,651</u>	<u>4,669,599</u>	<u>4,849,746</u>

In the prior year, the fixed income balance consisted of individual investments in Government of Canada bonds, Provincial Government bonds and corporate bonds. The current year's fixed income investment consists of units in a pooled investment fund. Canadian equities consists of units in a Canadian Equity Pooled Fund. Both the Canadian Equity Pooled Fund and the Fixed Income Pool Fund are managed by Greystone Capital Management Inc.

5 CLIA retroassessments

Transactions and balances

During the year, a retroassessment credit of \$254,000 (1998 levy of \$128,000) was declared by CLIA. The year end balance in the Due to Canadian Lawyers' Insurance Association account includes net retroassessments payable of \$242,840 (1998 - \$653,920) which are payable (receivable) in annual instalments as follows:

2000	\$ (96,920)
2001	157,080
2002	157,080
2003	25,600

Saskatchewan Lawyers' Insurance Association Inc.

Notes to Financial Statements

June 30, 1999

Change in accounting policy

During the year, SLIA changed the method by which retroassessments are reflected in the financial statements. In prior years, retroassessments were charged or credited to operations when paid. SLIA now records the full retroassessment in the year declared by CLIA.

This change has been retroactively applied and the comparative figures are restated as follows:

	1999	1998
	\$	\$
Adjustment to member's equity		
Member's equity - Beginning of year, as previously reported	3,393,243	1,468,887
Retroactive adjustments resulting from change in accounting policy	<u>(653,920)</u>	<u>(657,400)</u>
Member's equity - Beginning of year, as restated	<u>2,739,323</u>	<u>811,487</u>

The effect of the change on 1998 Statement of Income is an increase in Net premiums and Net income for the year of \$3,480.

The effect of the change on the 1998 Balance Sheet is an increase in Due to Canadian Lawyers' Insurance Association of \$653,920.

6 Provision for unpaid claims and expenses

As disclosed in note 2, SLIA provides for unpaid claims and expenses based on claims reported prior to year end. File by file reserves based on current information on open and reported claims as of June 30, 1999 amounted to \$2,272,646 (1998 - \$2,345,778).

SLIA engages an actuary to perform an annual actuarial valuation of its liabilities as of December 31 in order to provide recommendations with respect to the members' levy requirements for the subsequent policy year (commencing July 1). In addition to file by file claims reserves, the actuarial valuation includes an estimate of the cost of claims incurred but not reported and an estimate of internal administration, legal and adjusters costs. The valuation also takes into account past claims development experience and other actuarial considerations. The actuarial reserve required to settle all claims reported to December 31, 1998 was projected at \$3,905,262 on an undiscounted basis (\$3,453,222 discounted at 6%).

7 Claims expenses

Claims expenses consists of adjuster's fees, claims, settlement costs and counsel and legal fees incurred in the year as well as the net change in the provision for unpaid claims and expenses.

Saskatchewan Lawyers' Insurance Association Inc.
Notes to Financial Statements
June 30, 1999

8 Related party transactions

The Law Society of Saskatchewan, the sole member, provided management services to the Association for which it charged a fee of \$87,240 for the year (1998 - \$87,240).

9 Financial instruments

With the exception of annual fees received in advance, all of the assets and liabilities reported in these financial statements are financial instruments.

The fair market value of the marketable securities is disclosed in note 4. The fair value of the other recorded financial instruments is approximated by their carrying amounts.

10 Uncertainty due to the Year 2000 and computerized systems

Many computerized systems use two digits rather than four to identify a year. Errors may occur in date sensitive systems when information using year 2000 dates is processed or if certain dates in 1999 are used to represent something other than a date.

The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the company's ability to conduct normal business operations. It is not possible to be certain that all aspects of this issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

11 Equity in Canadian Lawyers' Insurance Association (Unaudited)

SLIA is a subscribing member of CLIA, a reciprocal insurance exchange through which the law societies of eight 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 SLIA has an interest in surpluses in these reserves. CLIA prepares annual Subscriber Accounts, as of 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 Subscribers Accounts of CLIA as of December 31, 1998 show SLIA's subscriber's equity to be \$1,742,228 (unaudited). SLIA's subscriber's equity is not reflected in these financial statements.

The Subscriber Account balance in CLIA is not readily available to SLIA. The subscribers' equity accounts would only be returned to the Subscriber in the event of termination of CLIA, and then only once all of the obligations of CLIA have been fulfilled.