

Financial Statements of

THE LAW SOCIETY OF MANITOBA

March 31, 2015

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 statement of financial position as at March 31, 2015, and the statements of operations and changes in equity of the General Fund, Reimbursement Fund, Professional Liability Claims Fund, Education and Competence Program Fund, and Endowment and Trust Funds and cash flows 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 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 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 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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Accountants

June 25, 2015
Winnipeg, Manitoba

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THE LAW SOCIETY OF MANITOBA
Statement of Financial Position
As at March 31, 2015

	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Program Fund	Endowment and Trust Funds	March 31, 2015 Total	March 31, 2014 Total
							(restated - Note 2)
ASSETS							
Cash and term deposits	\$ 2,863,799	\$ -	\$ -	\$ -	\$ -	\$ 2,863,799	\$ 2,329,540
Funds held in trust	539,474	-	-	-	-	539,474	513,700
Accounts and accrued interest receivable	235,480	1,139	65,290	1,855	-	303,764	291,674
Due from The Manitoba Law Library Inc.	1,223,261	-	-	-	-	1,223,261	1,221,664
Prepaid expenses	153,368	46,840	239,493	3,780	-	443,481	366,544
Investments (Note 5)	963,420	327,032	16,013,488	532,757	5,000	17,841,697	16,611,129
Deferred charge - pension plan (Note 10)	3,830,979	-	-	-	-	3,830,979	2,901,703
Capital assets (Note 6)	190,693	-	-	-	-	190,693	199,773
	\$ 10,000,474	\$ 375,011	\$ 16,318,271	\$ 538,392	\$ 5,000	\$ 27,237,148	\$ 24,435,727
LIABILITIES AND FUND EQUITY							
Accounts payable and accrued liabilities	\$ 411,882	\$ 79	\$ 3,842	\$ 125	\$ -	\$ 415,928	604,814
Funds held in trust	539,474	-	-	-	-	539,474	513,700
Fees and assessments paid in advance	1,601,035	461,000	556,954	305,574	-	2,924,563	2,466,027
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	6,882,000	-	-	6,882,000	6,882,000
Due to (from) other funds	3,906,076	(1,065,484)	(2,598,537)	(239,182)	(2,873)	-	-
	6,458,467	(604,405)	4,844,259	66,517	(2,873)	10,761,965	10,466,541
Fund equity							
General Fund	3,542,007	-	-	-	-	3,542,007	2,420,275
Reimbursement Fund (Note 8)	-	979,416	-	-	-	979,416	949,619
Professional Liability Claims Fund (Note 7)	-	-	11,474,012	-	-	11,474,012	10,213,400
Education and Competence Program Fund	-	-	-	471,875	-	471,875	378,084
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,685	5,685	5,620
	\$ 3,542,007	\$ 979,416	\$ 11,474,012	\$ 471,875	\$ 7,873	\$ 16,475,183	\$ 13,969,186
	\$ 10,000,474	\$ 375,011	\$ 16,318,271	\$ 538,392	\$ 5,000	\$ 27,237,148	\$ 24,435,727

ON BEHALF OF THE BENCHERS

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THE LAW SOCIETY OF MANITOBA
Statement of General Fund Operations and Changes in Equity
For the year ended March 31, 2015

	<u>2015</u>	<u>2014</u>
		(restated - Note 2)
REVENUE		
Annual fee		
Practicing	\$ 3,296,595	\$ 3,062,879
Non-Practicing	27,600	26,500
Administration fees	82,611	83,267
Costs recovered	67,119	58,654
Investment income	167,124	143,658
Other income	119,115	152,066
	3,760,164	3,527,024
EXPENSES		
Building operation and maintenance	129,474	117,575
Catering	51,815	44,706
Custodial fees	100,279	56,604
Depreciation	17,444	17,460
Honoraria	13,890	10,900
Library grant	500,000	550,000
Miscellaneous	1,271	7,902
Office and sundry	66,749	93,162
Other grants and prizes	223,272	219,190
Other services	15,220	9,471
Professional development and training	15,614	9,055
Professional fees	146,737	49,522
Prosecution and investigation	41,685	19,321
Publications	39,542	49,385
Salaries and benefits	2,809,241	3,297,048
Service fees	4,316	5,519
Technology	41,115	25,833
Telecommunications	14,981	15,142
Travel	160,063	135,087
Recovery of administrative charges	(825,000)	(675,000)
	3,567,708	4,057,882
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	192,456	(530,858)
FUND EQUITY, BEGINNING OF YEAR		
As previously reported	2,084,770	2,188,834
Change in accounting policy (Note 2)	335,505	(1,667,384)
As restated	2,420,275	521,450
PENSION REMEASUREMENT	929,276	2,429,683
FUND EQUITY, END OF YEAR	\$ 3,542,007	\$ 2,420,275

THE LAW SOCIETY OF MANITOBA
Statement of Reimbursement Fund Operations
and Changes in Equity
For the year ended March 31, 2015

	2015	2014
REVENUE		
Annual assessments	\$ 699,277	\$ 494,017
CLIA Surplus Rebate	-	160,852
Grant from Manitoba Law Foundation	192,362	167,692
Investment Income	43,570	39,986
	935,209	862,547
EXPENSES		
Claims	9,800	42,666
Insurance	171,365	145,824
Miscellaneous	983	408
Professional development and training	5,634	3,877
Professional fees	1,383	1,836
Prosecution and investigation	13,037	15,550
Rent	37,200	37,200
Salaries and benefits	470,637	419,131
Technology	2,264	2,638
Telecommunications	2,292	2,277
Travel	15,817	5,655
Administrative expenses	175,000	25,000
	905,412	702,062
EXCESS OF REVENUE OVER EXPENSES	29,797	160,485
FUND EQUITY, BEGINNING OF YEAR	949,619	789,134
FUND EQUITY, END OF YEAR	\$ 979,416	\$ 949,619

THE LAW SOCIETY OF MANITOBA
Statement of Professional Liability Claims Fund Operations
and Changes in Equity
For the year ended March 31, 2015

	<u>2015</u>	<u>2014</u>
REVENUE		
Insurance premiums paid by members	\$ 2,248,509	\$ 2,284,837
CLIA Surplus Rebate	395,724	-
Investment income	2,014,044	2,019,919
Other Income	-	1,335
	<u>4,658,277</u>	<u>4,306,091</u>
EXPENSES		
Administrative expenses	475,000	475,000
Claims paid (Note 9)	800,525	1,218,360
Counsel fees (Note 9)	511,531	460,023
Insurance	998,594	1,160,177
Library grant	30,000	60,000
Miscellaneous	3,578	1,791
Office and sundry	2,386	1,830
Professional fees	136,790	171,640
Publications	2,039	4,177
Salaries and benefits	435,416	427,341
Travel	1,806	1,950
	<u>3,397,665</u>	<u>3,982,289</u>
EXCESS OF REVENUE OVER EXPENSES	1,260,612	323,802
FUND EQUITY, BEGINNING OF YEAR	10,213,400	9,889,598
FUND EQUITY, END OF YEAR	\$ 11,474,012	\$ 10,213,400

THE LAW SOCIETY OF MANITOBA
Statement of Education and Competence Program Fund
Operations and Changes in Equity
For the year ended March 31, 2015

	<u>2015</u>	<u>2014</u>
REVENUE		
Legal education assessment	\$ 549,432	\$ 444,615
Student admission fees	5,800	5,048
Call fee	51,175	50,602
Legal education programs	409,248	390,536
CPLED fees	223,370	187,475
Grant from Manitoba Law Foundation	192,362	167,692
Investment income	70,979	65,140
Material sales	33,806	35,868
Other Income	21,048	16,308
	<u>1,557,220</u>	<u>1,363,284</u>
EXPENSES		
Administrative expenses	\$ 175,000	\$ 175,000
Call ceremony	8,442	13,015
Catering	30,153	23,007
Curriculum development	54,053	54,192
Honoraria	68,996	65,091
Miscellaneous expense	1,746	1,242
Office and sundry	22,084	15,648
Professional development and training	5,111	4,989
Professional fees	85,096	101,232
Publications	50,057	46,167
Rent	2,400	6,159
Salaries and benefits	880,887	840,856
Service fees	10,541	7,473
Technology	9,862	7,957
Telecommunications	2,744	1,950
Travel	56,257	54,308
	<u>1,463,429</u>	<u>1,418,286</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	93,791	(55,002)
FUND EQUITY, BEGINNING OF YEAR	378,084	433,086
FUND EQUITY, END OF YEAR	\$ 471,875	\$ 378,084

THE LAW SOCIETY OF MANITOBA
Statement of Endowment and Trust Funds Operations
and Changes in Equity
For the year ended March 31, 2015

	<u>2015</u>	<u>2014</u>
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	\$ 65	\$ 68
EXCESS OF REVENUE OVER EXPENSES	65	68
FUND EQUITY, BEGINNING OF YEAR	5,620	5,552
FUND EQUITY, END OF YEAR	\$ 5,685	\$ 5,620

THE LAW SOCIETY OF MANITOBA

Statement of Cash Flows

For the year ended March 31, 2015

	<u>2015</u>	<u>2014</u>
		(restated - Note 2)
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses:		
General Fund	\$ 192,456	\$ (530,858)
Reimbursement Fund	29,797	160,485
Professional Liability Claims Fund	1,260,612	323,802
General Education and Competence Program Fund	93,791	(55,002)
Endowment and Trust Funds	65	68
Items not affecting cash:		
Depreciation	17,444	17,460
Current year change in fair value of investments	(1,218,670)	(896,941)
Net change in non-cash working capital	179,026	189,058
	<u>554,521</u>	<u>(791,928)</u>
INVESTING ACTIVITIES		
Purchases of investments	(551,909)	(1,341,400)
Sales of investments	540,011	2,505,145
Purchases of capital assets	(8,364)	-
	<u>(20,262)</u>	<u>1,163,745</u>
INCREASE IN CASH AND TERM DEPOSITS	534,259	371,817
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	2,329,540	1,957,723
CASH AND TERM DEPOSITS, END OF YEAR	\$ 2,863,799	\$ 2,329,540

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

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. CHANGE IN ACCOUNTING POLICY

During the year the Society adopted CPA Canada Handbook Sections 3462 - Employee Future Benefits and 3463 - Reporting Employee Future Benefits by Not-For-Profit Organizations. In accordance with the transitional provisions, these Sections were applied retrospectively and the 2014 comparative figures and notes have been restated.

Section 3462 eliminated the deferral and amortization method as a policy choice for accounting for defined benefit plans and the three-month window for measuring plan assets and obligations. The standard requires that changes in the fair value of plan assets and in the measurement of the plan obligation, including past service costs, actuarial gains and losses, and curtailment/settlement gains and losses, will be recognized immediately in the income statement. As a result, the defined benefit asset or liability on the balance sheet reflects the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance as of the balance sheet date. Further, Section 3463 requires separate identification of remeasurements and other items from the other pension costs thereby allowing visibility to the impact resulting from the periodic remeasurements. For not-for-profit organizations, the standard requires remeasurements and other items to be recognized directly into net assets rather than in the statement of operations.

Additionally, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. Under Section 3463, the same discount rate must be applied to the benefit obligation and the plan assets to determine the finance cost. The discount rate will continue to be determined by reference to market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments or the interest rate inherent in the amount at which the defined benefit obligation could be settled.

The retrospective application of the new standard resulted in a decrease to opening equity at April 1, 2013, of \$1,667,384. For the year ended March 31, 2014, salaries and benefits in the General Fund were increased \$426,794 with the excess of revenue over expenses reduced by the same amount, and there was a direct increase to equity of the general fund of \$2,429,683. Opening equity for the year ended March 31, 2015 was increased by \$335,505.

3. 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.

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.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

4. 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 cost less accumulated depreciation, with the exception of the library and lockers, which are recorded at a nominal value and are not being depreciated. Depreciation on other assets is provided on a straight-line basis using the following rates:

Building	20 years
Computer equipment	3 years
Furniture and equipment	5 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, 2015. 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. The Society recognizes:

- a) the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance on the balance sheet;
- b) the cost of the plan for the year; and
- c) remeasurements and other items directly in equity.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when The Society becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments except investments are measured at amortized cost. Investments are measured at fair value.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations.

With respect to financial assets measured at cost or amortized cost, the Society recognizes in the statement of operations of the respective fund, an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of operations of the respective fund in the period the reversal occurs.

f) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of the accrued pension benefit asset and obligation, and the reserve for outstanding professional liability claims and associated costs at the date of the financial statements. 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:

	2015		2014	
General Fund	\$ 963,420	5.40%	\$ 836,633	5.03%
Reimbursement Fund	327,032	1.83%	283,994	1.71%
Professional Liability Claims Fund	16,013,488	89.78%	15,022,857	90.47%
Education and Competence Program Fund	532,757	2.99%	462,645	2.79%
Endowment and Trust Funds	5,000	.00%	5,000	.00%
	\$17,841,697	100.00%	\$16,611,129	100.00%

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

6. CAPITAL ASSETS

	2015			2014
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 186,000	\$ -	\$ 186,000	\$ 186,000
Building	917,135	(917,135)	-	-
Computer equipment	254,126	(251,879)	2,247	6,386
Furniture and equipment	191,643	(189,199)	2,444	7,385
Library and lockers	2	-	2	2
	\$ 1,548,906	\$ (1,358,213)	\$ 190,693	\$ 199,773

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, 2015. Management has set aside the sum of \$6,882,000 (2014 - \$6,882,000) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$16,013,488 (2014 - \$15,022,857) 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 Fund are reported net of amounts recovered. The gross amounts are as follows:

	2015	2014
Claims paid		
Total expenses	964,295	1,857,142
Recoveries	(163,770)	(638,782)
	800,525	1,218,360
Counsel fees		
Total expenses	550,688	472,515
Recoveries	(39,157)	(12,492)
	511,531	460,023

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

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, 2013 and these financial statements reflect the extrapolation of information to March 31, 2015. The next required valuation will be as of December 31, 2016.

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

	<u>2015</u>	<u>2014</u> (restated - Note 2)
Change in fair value of plan assets:		
Balance at beginning of year	\$ 14,568,268	\$ 11,784,457
Employer contributions	918,718	1,248,204
Employee contributions	237,284	229,276
Actual return on plan assets	2,315,522	2,194,754
Benefits paid	(487,469)	(888,423)
Fair value, end of year	17,552,323	14,568,268
Change in accrued benefit obligation:		
Balance at beginning of year	11,666,565	11,312,438
Current service cost	577,990	538,332
Interest cost on benefit obligation	612,495	593,903
Employee contributions	237,284	229,276
Benefits paid	(487,469)	(888,423)
Actuarial loss (gain) on accrued benefit obligation	1,114,479	(118,961)
Benefit obligation, end of year	13,721,344	11,666,565
Funded status:		
Market value of plan assets, end of year	17,552,323	14,568,268
Defined benefit obligation, end of year	13,721,344	11,666,565
Accrued benefit asset	\$ 3,830,979	\$ 2,901,703

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

10. PENSION PLAN (continued)

	(Percentage of plan assets)	
	<u>2015</u>	<u>2014</u>
Canadian equities	17%	28%
Foreign equities	45%	37%
Fixed income	31%	30%
Short term investments	7%	5%
Total	100%	100%

	<u>2015</u>	<u>2014</u>
		(restated - Note 2)
Defined benefit costs:		
Current service cost	\$ 577,990	\$ 538,332
Finance costs	(152,339)	(24,781)
Costs arising in the period	\$ 425,651	\$ 513,551

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

	<u>2015</u>	<u>2014</u>
At beginning of period		
Discount rate	5.25%	5.25%
Rate of compensation increase	4.50%	4.50%
Benefit costs for the year ended March 31		
Discount rate	5.25%	5.25%
Rate of compensation increase	4.50%	4.50%

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2015

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.

In accordance with the asset mix strategy updated in 2013, the Society has invested approximately 57% (2014 – 56%) of its investment assets in fixed income securities and 43% (2014 – 44%) in equities as at March 31, 2015. 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, 2015 was 3.36% (2014 – 3.50%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2015 are as follows:

	2015		2014
	Market		Market
	Value		Value
Less than one year	\$ -	\$	-
One to five years	1,752,861		2,721,684
Five to ten years	2,526,408		2,387,282
Greater than ten years	2,360,095		1,870,715
	\$ 6,639,364	\$	6,979,681

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, 2015 the Society's maximum credit risk exposure is equal to the market value of investments in short-term deposits, bonds and debentures. The Society's concentration of credit risk as at March 31, 2015 related to bonds and debentures is categorized among the following types of issuers.

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

<u>Type of Issuer</u>	2015 Market Value	2014 Market Value
Government of Canada and Government of Canada guaranteed	\$ 2,180,069	\$ 2,196,160
Provincial and Provincial guaranteed	1,706,584	1,993,974
Municipal and Municipal guaranteed	288,081	271,473
Corporations	2,464,630	2,518,074
	\$ 6,639,364	\$ 6,979,681

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, 2015 the Society's foreign currency exposure was \$5,378,251 (2014 - \$4,936,992). The Society does not use derivative instruments to reduce its exposure to foreign currency risk.