



The Law Society  
of Upper Canada

Barreau du  
Haut-Canada

Annual Report 2015



# 2015 Financial Statements

**THE LAW SOCIETY OF UPPER CANADA**  
**2015 ANNUAL REPORT**

# **Financial Statements**

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# THE LAW SOCIETY OF UPPER CANADA

## ANNUAL FINANCIAL STATEMENTS

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Summary of Financial Performance

The Law Society of Upper Canada's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating surplus of \$2.3 million (2014 - \$2.6 million). The 2015 budget for these two Funds projected a combined deficit of \$2.7 million with the use of accumulated balances in the Funds, so operating results are better than budgeted. With the exception of investment income, all the major revenue categories exceeded budget. All the major expense categories also had favourable variances compared to budget. In comparing 2015 results to 2014 results, the size and nature of operations were substantially similar. The budgets for these two years included small decreases in staff numbers after a consistent increasing trend in prior years.

The Society's restricted funds are reporting a combined deficit of \$6.1 million in 2015 (2014 - \$18.5 million deficit). There are three reasons for the restricted funds deficit in 2015:

- The Lawyer Compensation Fund experienced an adverse claims experience, resulting in a deficit of \$713,000 (2014 - \$10.2 million deficit).
- As anticipated in the insurance contract with Lawyers' Professional Indemnity Company (LAWPRO) for 2015, the Errors & Omissions Insurance Fund (E&O Fund) provided a \$2.5 million premium contribution to reduce the lawyer's base premium. This is the primary reason for the E&O Fund experiencing a deficit of \$2.5 million (2014 - \$5.2 million deficit).
- Amortization in the Invested in Capital and Intangible Assets Fund of \$3.7 million (2014 - \$3.6 million) was the third significant contributor to the restricted funds deficit in the current year.

#### Statement of Revenues and Expenses and Change in Fund Balances

##### Revenues

###### *Annual Fees*

Total annual fee revenues have increased to \$75.6 million (2014 - \$73.2 million) due to an increase in the number of licensees billed with the number of paralegals in particular rising in percentage terms. There were fluctuations in the individual fee components but the total annual fee per lawyer and paralegal was the same as 2014.

###### *Insurance Premiums and Levies*

The E&O Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies increased to \$113.1 million in 2015 (2014 - \$104.4 million) as the number of insured lawyers increased and a change in estimate of transaction levies resulted in an increase in premiums earned of \$5,775,000. Premiums incurred increased by a similar amount.

The base premium for professional liability insurance coverage for Ontario lawyers was \$3,350 per lawyer, the same premium charged in 2014. The professional liability insurance program was essentially the same, year on year.

*Professional Development & Competence (“PD&C”)*

PD&C revenue comprises licensing process and continuing professional development revenue. Total PD&C revenues have declined slightly to \$21.4 million (2014 - \$22 million).

- Licensing Process revenues from lawyer (\$10.8 million) and paralegal candidates (\$2.1 million) have decreased to a total of \$12.9 million (2014 - \$13.5 million), but still exceed budget. There were relatively fewer total candidates and the fees charged to candidates did not change. The pilot Law Practice Program (LPP) commenced in the fall of 2014 providing lawyer licensing candidates the option of either articling or completing the LPP. The pilot project is for three years. A comparison of candidate numbers is set out below:

	2015	2014
Candidate Registrants		
Lawyer	2,336	2,333
Paralegal	1,450	1,558
Candidates Licensed		
Lawyer	2,201	1,984
Paralegal	1,372	1,156

- Continuing Professional Development (“CPD”) revenues from lawyers (\$7.5 million) and paralegals (\$996,000) have decreased to a total of \$8.5 million (2014 - \$8.6 million), but still exceed budget. The department continues to see a shift toward online learning with more registrants viewing programs by live webcast or on demand. The CPD department is offering fewer programs with printed materials as members grow more comfortable with electronic program materials, and the department is preparing to move to a standard offering of online materials only, starting January 2016. Registrations are analysed below:

	2015	2014
Registration (all formats)		
Paid programs	42,309	39,453
Nominal fee programs	11,540	24,010
Total number of registrants	53,849	63,463

*Investment Income and Change in Fair Value of Investments*

Investment income of \$2.2 million (2014 - \$2.8 million) offset the net realized and unrealized capital loss of \$2.1 million (2014 – surplus of \$1 million).

*Other Income*

Other income has increased to \$7.6 million (2014 - \$7.1 million). Administrative fee revenue has increased and in 2015, the Law Foundation of Ontario approved a grant of \$400,000 for access to justice replacing the licensing processes grants of a similar amount in PD&C revenue in 2014.

## **Expenses**

### *Professional Regulation, Tribunals and Compliance*

Total regulatory expenses are relatively static at \$28.2 million (2014 - \$27.9 million) and are under budget. The biggest variable in this category is typically spending on outside counsel and expert witnesses which was significantly less in the current year than 2014.

The processing of files through the Intake, Complaints, Investigations and Discipline departments comprise a significant part of regulatory resources. Complaint trends have fluctuated in a fairly narrow band in recent years although typical investigations are requiring increased resources. Expenses and staff numbers in these areas were relatively static year-on-year.

### *Professional Development & Competence*

Total PD&C expenses have increased to \$26.3 million (2014 - \$24.8 million) but were still under budget. Part of the increase can be attributed to the integration of a marketing and communications unit into the department from Convocation, Policy and Outreach. Also, there has been an increase in the number of licensing process candidates requiring special support services, for instance, rooms, proctors and software.

The movement toward online CPD program delivery and materials provision noted in the revenue discussion also provides savings in program expenses, including catering costs, course materials and venue rentals although these savings have been slightly offset by general cost increases in other areas.

In the paralegal licensing process, resources have been devoted to the development of the new and extended paralegal licensing examination.

### *Corporate Services*

Corporate Services expenses, primarily comprising the Client Service Centre, Information Systems, Facilities, Finance and Human Resources, increased to \$23.8 million (2014 - \$23.1 million) but were under budget. Severance costs exceeded budget but were less than recent years.

Office of General Counsel expenditures on counsel fees exceeded budget and 2014 levels, primarily on the Trinity Western University matter. In July 2015, the Ontario Divisional Court upheld the Society's decision not to accredit the TWU law school. The university is appealing this decision.

### *Convocation, Policy and Outreach*

Convocation, policy and outreach expenses primarily comprises Policy, Equity & Public Affairs and benchers expenses decreased to \$8 million (2014 - \$8.6 million) and were under budget. Policy, equity and public affairs includes the Treasurer's Action Group on Access to Justice. The Law Foundation of Ontario approved a new grant of \$400,000 for the development and delivery of Access to Justice initiatives in 2015 with associated expenses. The office of Executive Director, Policy, Equity & Public Affairs had its first full year of operation after being implemented in 2014.

Included in Convocation, policy and outreach expenses are payments to benchers during the year. In respect of remuneration, these payments totalled \$843,000 (2014 - \$972,000) and in respect of expense reimbursements, these payments totalled \$563,000 (2014 - \$545,000).

### *Services to Members and Public*

Expenses related to services to members and the public, mainly comprising payments to CANLII, the Members Assistance Plan and catering, were relatively static at \$4 million (2014 - \$4.2 million) and were under budget.

### **Changes in Fund Balances**

#### *General Fund*

The 2015 budget planned to reduce the lawyer General Fund balance by \$641,000 but an operating surplus of \$1.4 million was achieved. Based on these actual results and after the budgeted transfer of \$1.5 million from the accumulated surplus investment income in the E&O Fund, the lawyer General Fund has increased by \$2.9 million. The lawyer General Fund balance is now \$21.4 million which is in excess of Convocation's fund balance policy which, in brief, requires a minimum of two months and a maximum of three months operating expenses be maintained in the lawyer General Fund balance. Compliance with this policy will be addressed when the budget for 2017 is drafted.

The 2015 budget planned to reduce the paralegal General Fund balance by \$541,000, although based on actual results, the paralegal General Fund has increased by \$892,000. The paralegal General Fund balance is now \$3.9 million. Because of the relatively short history of paralegal regulation there is no formal fund balance policy for the paralegal General Fund.

#### *Restricted Funds*

The 2015 budget planned to reduce the lawyer Compensation Fund balance by \$707,000. The actual deficit for the year amounted to \$713,000 reducing the Compensation Fund balance for lawyers to \$14.9 million. Convocation's policy for the lawyer's Compensation Fund in brief, requires an amount sufficient to provide for a minimum of three successive one-in-one-hundred-year events and a maximum of four such events to be maintained in the Fund balance. To assist in maintaining the fund balance above the minimum level required by Convocation's policy, an increase in the Compensation Fund levy in 2016 to replenish the fund balance has been budgeted.

The 2015 budget planned to reduce the paralegal Compensation Fund balance by \$77,000. Actual results show a surplus of \$15,000 resulting in a fund balance of \$441,000.

The E&O Fund balance has decreased from \$58.3 million in 2014 to \$54.3 million at the end of 2015. Surplus investment income of \$1.5 million accumulated in this fund had been earmarked for the reduction of lawyers' annual fees and was transferred in 2015. In 2016, another \$1.2 million has been earmarked for the reduction of lawyers' annual fees. In 2015, \$2.5 million (2014 - \$5 million) was drawn from the balance in the E&O Fund to reduce the Society's insurance premium in the applicable year. This will not be repeated in 2016.

The Capital Allocation Fund has decreased to \$6.7 million (2014 - \$8.1 million). In 2014, the Society embarked on a three year plan to modernize its technology infrastructure, improving both its internal systems and its external-facing presence. The largest project, implementation of Enterprise Content Management, revolves around the concept of a single secure location to develop, collaborate, distribute and archive information internally using Microsoft SharePoint.

## Balance Sheet

### *Cash and Short-Term Investments*

Cash and short-term investments increased to a total of \$48.9 million (2014 - \$39.7 million). The investment manager has adopted a relatively conservative approach resulting in increased short-term investments and there have been capital transfers from portfolio investments to fund the restricted fund deficits.

### *Investment in Subsidiaries*

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of \$4,997,000 plus contributed capital of \$30,645,000.

### *Portfolio Investments*

Portfolio investments are shown at fair value of \$66 million (2014 - \$78.4 million) after capital transfers to fund deficits in the restricted funds and a difficult investment environment in 2015. Investments are held in the following funds:

(\$000's)	2015	2014
E&O Fund	21,487	29,067
Compensation Fund	29,450	34,243
General Fund	15,084	15,090
Total	66,021	78,400

Investments comprise Canadian equities (19%) and Canadian fixed income investments (81%). The portfolio is managed in compliance with the Society's investment policy. Fixed income investments are in a pooled fund of government, provincial and corporate bonds with an investment rating of BBB or better. Equity investments are in a pooled fund of diversified securities listed on the Toronto Stock Exchange.

### *Deferred Revenue*

Deferred revenue has increased to \$15.3 million (2014 - \$11.4 million) primarily due to more future year membership fees received in 2015 as compared to 2014. The timing of these payments does not follow a pattern and is dependent on when members actually pay their fees.

### *Provision for Unpaid Grants*

The Compensation Fund provision for unpaid grants (that is, the amount reserved) has decreased to \$19.7 million (2014 - \$21.4 million). The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The relatively large provision compared to much of the historical data continues to be attributable to some large alleged defalcations on the part of certain licensees. The Compensation Fund describes a major defalcation as being over 35 claims arising from the conduct of one licensee and the Fund currently has two of these major defalcations. Most of these claims are still being evaluated and in some instances related investigations are still ongoing. Based on the advice of the actuary, however, the Fund balance remains sufficient to absorb the additional potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises \$136,000 (2014 - \$225,000) of the total Compensation Fund provision for unpaid grants.

### *Unclaimed Trust Funds*

Unclaimed trust funds continue to increase, now totalling \$4.2 million (2014 - \$3.7 million). These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed. To date, monies returned to clients from the fund have been nominal. By statute, the Society administers the unclaimed trust funds, in perpetuity, and is entitled to reimbursement for administrative expenses to a limit of the annual income earned on funds held. Net income, if any, is available for transfer to the Law Foundation of Ontario (“LFO”). To date, administrative expenses have exceeded income and no transfers to the LFO have been made.

### *Other Trust Funds*

Included in the notes to the financial statements, but not the Balance Sheet, is a reference to other trust funds held by the Society. The Society administers client funds for lawyers under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet as they are held temporarily and with a restricted administrative mandate. Money paid to the Society is held in trust until it is repaid to the appropriate payee or transferred to the Unclaimed Trust Funds. At the end of 2015, total funds held in trust amounted to \$4.9 million (2014 – \$2.4 million). The volume and value of balances depend on trusteeships at the time.

## **Restricted Funds**

### *Compensation Fund*

The lawyer fund is reporting a deficit of \$713,000 (2014 – \$10.2 million deficit). The lawyer Compensation Fund annual fee income decreased to \$8.6 million (2014 - \$8.9 million) in line with the reduction in the levy from \$238 to \$225 per lawyer. Lawyer Compensation Fund expenses have decreased to \$9.3 million (2014 - \$21.1 million). The 2014 expense was above the normal range as the claims from two major defalcations were processed. To assist in maintaining the fund balance above the minimum level required by Convocation’s policy, an increase in the lawyer Compensation Fund levy in 2016 to replenish the fund balance has been budgeted.

The paralegal fund is reporting a surplus of \$15,000 (2014 – \$7,000 surplus). The paralegal levy decreased reducing annual fee income to \$612,000 from \$654,000.

### *Errors & Omissions Insurance Fund*

The fund is reporting a deficit of \$2.5 million (2014 - \$5.2 million) as expected due to the annual use of \$2.5 million (2014 - \$5 million) of the fund balance to mitigate the base insurance levy for lawyers. LAWPRO’s base premium of \$3,350 has not changed from 2014. The number of insured lawyers increased in 2015. A change to the method of calculating transaction levy accruals has resulted in a matching increase in premiums earned and premiums incurred of \$5,775,000. Premium and levy revenue increased to \$113.1 million (2014 - \$104.4 million) and expenses increased to \$115.6 million (2014 - \$110.9 million).

### *County Libraries Fund*

Funding of county libraries through LibraryCo Inc. totalled \$7.7 million (2014 - \$7.5 million). The Board of LibraryCo is continuing to assess transition requirements and defining the approaches that will be taken to support the provision of legal information and library services into the future.



### *Other Restricted Funds*

The other restricted funds balance is made up of the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Plan Fund (“PLAP”). PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave benefits. Benefit payments totaled \$232,000 to 34 successful applicants (2014 - \$280,000 to 32 successful applicants).

### **Conclusion**

Subsequent to the lawyer bench election in 2015, benchers engaged in strategic planning built on the Law Society’s mission, mandate and principles for governance found in the Law Society Act. The priorities established were to:

- Lead as a professional regulator;
- Prioritize life-long competence for lawyers and paralegals;
- Enhance access to justice across Ontario;
- Engage stakeholders and the public with responsive communications and
- Increase organizational effectiveness.

The Society is in a financially sound position to implement this strategic plan and is well placed for the future.



May 2, 2016

## **Independent Auditor's Report**

### **To the Members of The Law Society of Upper Canada**

We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2015, the statements of revenues and expenses and change in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **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 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 Upper Canada as at December 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.

#### **Other matter**

The financial statements of The Law Society of Upper Canada for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on April 23, 2015.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

**THE LAW SOCIETY OF UPPER CANADA**

**Balance Sheet**

*Stated in thousands of dollars*

*As at December 31*

	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash	25,932	19,441
Short-term investments	22,990	20,280
Accounts receivable (notes 4, 5 and 8)	9,069	3,768
Prepaid expenses	1,958	2,141
<b>Total current assets</b>	<b>59,949</b>	<b>45,630</b>
<b>Investment in subsidiaries (note 4)</b>	<b>35,642</b>	<b>35,642</b>
<b>Portfolio investments (note 6)</b>	<b>66,021</b>	<b>78,400</b>
<b>Capital assets (note 7)</b>	<b>10,166</b>	<b>11,149</b>
<b>Intangible assets (note 7)</b>	<b>1,019</b>	<b>1,400</b>
<b>Total Assets</b>	<b>172,797</b>	<b>172,221</b>
<b>Liabilities and Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	12,318	11,412
Deferred revenue	15,271	11,428
Due to LAWPRO (note 4)	7,569	6,634
<b>Total current liabilities</b>	<b>35,158</b>	<b>29,474</b>
Provision for unpaid grants	19,652	21,433
Unclaimed trust funds (note 9)	4,226	3,712
<b>Total Liabilities</b>	<b>59,036</b>	<b>54,619</b>
<b>Fund Balances</b>		
<b>General funds</b>		
Lawyers	21,407	18,507
Paralegals	3,866	2,974
<b>Restricted funds (note 18)</b>		
Compensation - lawyers	14,905	15,618
Compensation - paralegals	441	426
Errors and omissions insurance	54,342	58,305
Capital allocation	6,716	8,096
Invested in capital and intangible assets	11,185	12,549
Other	899	1,127
<b>Total Fund Balances</b>	<b>113,761</b>	<b>117,602</b>
<b>Total Liabilities and Fund Balances</b>	<b>172,797</b>	<b>172,221</b>

*See accompanying notes*

*On behalf of Convocation*

*Treasurer*

*Co-Chairs, Audit & Finance Committee*

*Jane E. Minor*

THE LAW SOCIETY OF UPPER CANADA

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the year ended December 31

	2015	2014	2015	2014	2015	2014	2015	2014
	General Fund Lawyer		General Fund Paralegal		Restricted Funds (note 18)		Total	
<b>Revenues</b>								
Annual fees	51,380	50,189	4,039	3,554	20,191	19,492	75,610	73,235
Insurance premiums and levies	-	-	-	-	113,103	104,415	113,103	104,415
Professional development and competence	18,360	18,774	3,081	3,273	-	-	21,441	22,047
Investment income	624	767	59	64	1,544	1,919	2,227	2,750
Change in fair value of investments	(424)	158	(40)	13	(1,612)	814	(2,076)	985
Other (note 11)	6,826	5,917	824	557	(56)	597	7,594	7,071
<b>Total revenues</b>	<b>76,766</b>	<b>75,805</b>	<b>7,963</b>	<b>7,461</b>	<b>133,170</b>	<b>127,237</b>	<b>217,899</b>	<b>210,503</b>
<b>Expenses</b>								
Professional regulation, tribunals and compliance	25,783	25,817	2,389	2,094	-	-	28,172	27,911
Professional development and competence	23,896	22,794	2,376	2,055	-	-	26,272	24,849
Corporate services	21,708	21,143	2,063	1,931	-	-	23,771	23,074
Convocation, policy and outreach (note 12)	7,408	7,958	605	595	-	-	8,013	8,553
Services to members and public	3,806	3,972	220	218	-	-	4,026	4,190
Allocated to Compensation Fund	(7,246)	(7,365)	(582)	(507)	-	-	(7,828)	(7,872)
Restricted (note 18)	-	-	-	-	139,314	145,751	139,314	145,751
<b>Total expenses</b>	<b>75,355</b>	<b>74,319</b>	<b>7,071</b>	<b>6,386</b>	<b>139,314</b>	<b>145,751</b>	<b>221,740</b>	<b>226,456</b>
<b>Surplus (Deficit)</b>	<b>1,411</b>	<b>1,486</b>	<b>892</b>	<b>1,075</b>	<b>(6,144)</b>	<b>(18,514)</b>	<b>(3,841)</b>	<b>(15,953)</b>
<b>Fund balances, beginning of year</b>	<b>18,507</b>	<b>21,410</b>	<b>2,974</b>	<b>1,882</b>	<b>96,121</b>	<b>110,263</b>	<b>117,602</b>	<b>133,555</b>
<b>Interfund transfers (notes 2 and 13)</b>	<b>1,489</b>	<b>(4,389)</b>	<b>-</b>	<b>17</b>	<b>(1,489)</b>	<b>4,372</b>	<b>-</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>21,407</b>	<b>18,507</b>	<b>3,866</b>	<b>2,974</b>	<b>88,488</b>	<b>96,121</b>	<b>113,761</b>	<b>117,602</b>

See accompanying notes

**THE LAW SOCIETY OF UPPER CANADA**

**Statement of Cash Flows**

*Stated in thousands of dollars*

*For the year ended December 31*

	2015	2014
<b>Net inflow of cash related to the following activities</b>		
<b>Operating</b>		
Deficit	(3,841)	(15,953)
Items not affecting cash:		
(Decrease) Increase in provision for unpaid grants	(1,781)	11,430
Amortization of capital assets	2,978	3,058
Amortization of intangible assets	719	518
Loss on disposal of capital assets	273	-
	(1,652)	(947)
Net change in non-cash operating items:		
Accounts receivable	(5,301)	(1,274)
Prepaid expenses	183	(520)
Accounts payable and accrued liabilities	906	1,726
Due to LAWPRO	935	6,637
Deferred revenue	3,843	(1,806)
Fund contribution - unclaimed trusts	514	517
<b>Cash (used) from operating activities</b>	<b>(572)</b>	<b>4,333</b>
<b>Investing</b>		
Portfolio investments - net	12,379	(1,251)
Short-term investments -net	(2,710)	(593)
Capital asset additions	(2,268)	(1,141)
Intangible asset additions	(338)	(1,331)
<b>Cash (used) from investing activities</b>	<b>7,063</b>	<b>(4,316)</b>
<b>Net inflow of cash, during the year</b>	<b>6,491</b>	<b>17</b>
Cash, beginning of year	19,441	19,424
<b>Cash, end of year</b>	<b>25,932</b>	<b>19,441</b>

*See accompanying notes*

**THE LAW SOCIETY OF UPPER CANADA**  
**Notes to Financial Statements, December 31, 2015**  
Stated in whole dollars except where indicated

## **1. Background**

The Law Society of Upper Canada (the “Society”) was founded in 1797 and incorporated in 1822 with the enactment of the Law Society Act.

The Law Society Act, section 4.1, states that it is a function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the Law Society Act, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law;
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario;
- The Society has a duty to protect the public interest;
- The Society has a duty to act in a timely, open and efficient manner;
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

At December 31, 2015, the total number of lawyers and paralegals entitled to provide legal services in Ontario were 49,000 and 7,600 respectively. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is not subject to federal or provincial income taxes.

## **2. Nature of Financial Statements**

These financial statements present the financial position and operations of the Society and include the General Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

### ***Subsidiaries and Related Corporation***

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LibraryCo Inc. ("LibraryCo") and a related corporation, the Law Society Foundation. These entities have not been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

### ***General Fund***

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2015, the lawyer fund balance was \$21,407,000 (2014 – \$18,507,000). The paralegal fund balance was \$3,866,000 (2014 – \$2,974,000).

The Society's policy is to maintain the General Fund balance at no less than two and no more than three months of General Fund budgeted expenses.

If the General Fund balance exceeds three months of budgeted General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

If the General Fund balance is less than two months of budgeted General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the General Fund balance is more than two months of budgeted General Fund expenses and less than three months of budgeted General Fund expenses, Convocation may appropriate funds from the General Fund Balance for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

### ***Restricted Funds***

#### ***Compensation Fund***

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery,

administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of three successive 99th percentile aggregate claim scenarios (one-in-one-hundred-year event) and a maximum of four such events. The estimated amount of aggregate claims in the 99th percentile is to be actuarially reviewed at least every three years.

If the Lawyer Compensation Fund balance exceeds four one-in-one-hundred year events, Convocation shall utilize some or all of the excess for the following:

- Mitigation of the Lawyer Compensation Fund levy for the next fiscal year;
- Annual mitigation of the Lawyer Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than three one-in-one-hundred-year events, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the Lawyer Compensation Fund balance is more than three one-in-one-hundred-year events and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- Leave the fund balance at its current balance for the upcoming fiscal year.

The General Fund allocates the full cost of its spot audit program, 25% of investigation expenses and 9% of discipline expenses to the Compensation Fund. In addition, administrative expenses are allocated from the General Fund in proportion to the Fund's operating budget. In 2015, the total allocated costs amounted to \$7,828,000 (2014 – \$7,872,000). At December 31, 2015, the lawyer share of the fund balance was \$14,905,000 (2014 – \$15,618,000) and the paralegal share of the fund balance was \$441,000 (2014 – \$426,000).

#### ***Errors and Omissions Insurance Fund***

The Errors and Omissions Insurance Fund ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.



Under the offer for 2015, \$2.5 million was drawn from the available surplus in the E&O Fund built up in prior years and applied to the 2015 insurance premium (2014 - \$5 million).

In prior years, to the extent that transaction-based levies exceeded anticipated amounts, the excess remained in the E&O Fund and was applied as premiums in future years. In the event of a shortfall, the shortfall was met by additional funds from the E&O fund balance. This was discontinued prior to the start of the 2015 year. The net 2014 contribution to the insurance program was \$1,458,000.

There is also a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2015 and 2014.

At December 31, 2015, the E&O Fund balance was \$54,342,000 (2014 – \$58,305,000) of which \$35,642,000 (2014 – \$35,642,000) comprises the Society’s investment in LAWPRO.

#### ***Capital Allocation Fund***

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society’s capital and intangible assets. These include buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society’s capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. At December 31, 2015, the balance was \$6,716,000 (2014 – \$8,096,000).

#### ***Invested in Capital and Intangible Assets Fund***

The Invested in Capital and Intangible Assets Fund records transactions related to the Society’s capital assets and intangible assets specifically acquisitions, amortization and disposals. At December 31, 2015, the balance was \$11,185,000 (2014 – \$12,549,000), representing the net book value of the Society’s capital and intangible assets.

#### ***County Libraries Fund***

The County Libraries Fund records transactions related to the Society’s support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2015 and 2014 was \$nil.

#### ***Other Restricted Funds***

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2015, the balance was \$188,000 (2014 – \$300,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2015 was \$275,000 (2014 – \$460,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (“PLAP”) and is funded by lawyers’ fees. The PLAP provides financial assistance to lawyers in firms of five

lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. At December 31, 2015, the Fund balance was \$436,000 (2014 – \$367,000).

### 3. Significant Accounting Policies

#### ***Basis of presentation***

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting.

#### ***Financial instruments***

The Society’s financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

<b>Asset / Liability</b>	<b>Measurement</b>
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian equity pooled funds. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

There has been no change in risk exposures from the previous period.

#### ***Interest rate risk***

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society’s investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 5 years. The Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

***Market risk***

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy which requires a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements.

***Credit risk***

Credit risk is the possibility that other parties may default on their financial obligations. At year end, the maximum exposure of the Society to credit risk in cash and short and long-term fixed income investments was \$102,256,000 (2014 – \$101,642,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year end, the maximum exposure of the Society to credit risk in accounts receivable was \$9,069,000 (2014 – \$3,768,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

***Liquidity risk***

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

***Cash and short-term investments***

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

***Portfolio investments***

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

### ***Capital assets***

Capital assets are presented at cost net of accumulated amortization. For purposes of calculating the first year's amortization, all capital assets are deemed to be acquired, put into service, or completed on July 1. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building improvements	10 years
Furniture, equipment and computer hardware	3 to 5 years

### ***Intangible assets***

Intangible assets comprising computer software are presented at cost net of accumulated amortization. For purposes of calculating the first year's amortization, assets are deemed to be acquired, put into service, or completed on July 1. Amortization is charged to expenses on a straight-line basis over three years.

### ***Revenue recognition***

Annual member fees, insurance premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year. Insurance premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue.

Professional development & competence, and other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees and insurance premiums receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

### ***Provision for unpaid grants***

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of \$100,000 for claims incurred before 2009 and \$150,000 for claims incurred post 2008. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants are recorded as liabilities on the balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries. Grant liabilities are carried on a discounted

basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 1.53% (2014 – 0.86%).

### ***Collections***

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

### ***Volunteer services***

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers.

Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

### ***Measurement uncertainty***

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The valuation of liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

## **4. Investment in Subsidiaries**

Investment in the Society's subsidiaries is recorded at cost:

	2015	2014
LAWPRO	<b>35,642,000</b>	35,642,000
LibraryCo	<b>100</b>	100
Total investment in subsidiaries	<b>35,642,100</b>	35,642,100

### ***LAWPRO***

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5 million in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of \$100 each. In the period from 1995 to 1997, the Society transferred a net amount of \$30.6 million in capitalization funding as contributed surplus to LAWPRO.

Summarized balance sheet of LAWPRO:

(\$000's)	2015	2014
Total assets	<b>702,982</b>	681,909
Total liabilities	<b>464,929</b>	473,284
Total shareholder's equity	<b>238,053</b>	208,625
Total liabilities and shareholder's equity	<b>702,982</b>	681,909

Summarized statement of income of LAWPRO for the year ended December 31:

(\$000's)	2015	2014
Revenue	<b>141,039</b>	143,051
Expenses	<b>102,580</b>	120,080
Income before taxes	<b>38,459</b>	22,971
Income tax expense	<b>10,015</b>	5,911
Net income	<b>28,444</b>	17,060
Other comprehensive income net of tax	<b>984</b>	1,690
Comprehensive income	<b>29,428</b>	18,750

Summarized statement of cash flows of LAWPRO for the year ended December 31:

(\$000's)	2015	2014
Net cash inflow from operating activities	<b>20,263</b>	12,109
Net cash outflow from investing activities	<b>(14,994)</b>	(9,306)
Cash and cash equivalents, beginning of year	<b>17,328</b>	14,525
Cash and cash equivalents, end of year	<b>22,597</b>	17,328

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$115,603,000 (2014 – \$110,872,000) for premiums during the year. LAWPRO contributed \$188,000 primarily to a wellness program provided by the Society to its members (2014 - \$231,000). Included in the Society’s financial statements are amounts due to LAWPRO of \$7,569,000 (2014 – \$6,634,000).

### **LibraryCo**

LibraryCo, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association (“TLA”) and 75 are held by the Federation of Ontario Law Associations (“FOLA”). The Society may appoint up to four directors, FOLA may appoint up to three directors and TLA may appoint one director.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo:

(\$000’s)	2015	2014
Total assets	<b>780</b>	740
Total liabilities	<b>26</b>	98
Total share capital and fund balances	<b>754</b>	642
Total liabilities, share capital and fund balances	<b>780</b>	740

Summarized statement of income of LibraryCo for the year ended December 31:

(\$000’s)	2015	2014
Total revenue	<b>7,702</b>	8,049
Total expenses	<b>7,590</b>	8,290
Surplus (Deficit)	<b>112</b>	(241)

Summarized statement of cash flows of LibraryCo for the year ended December 31:

(\$000’s)	2015	2014
Net cash inflow (outflow) from operating activities	<b>185</b>	(210)
Cash, beginning of year	<b>143</b>	353
Cash, end of year	<b>328</b>	143

The Society provided LibraryCo with a grant of \$7,696,000 (2014 - \$7,499,000) during the year. The Society administers the operations of LibraryCo under an administrative services agreement. The total amount billed by the Society was \$502,000 (2014 – \$589,000) for administrative services and certain other services and publications. Included in the Society’s accounts receivable are amounts due from LibraryCo of \$6,000 (2014 – \$1,000).

## 5. Related Corporation

The Law Society Foundation (“LSF”) is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada’s legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada’s legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society’s accounts receivable are amounts due from the LSF of \$59,000 (2014 – \$99,000).

## 6. Portfolio Investments

(\$000’s)	2015	2014
Debt securities	53,335	61,924
Canadian equities	12,686	16,476
<b>Total portfolio investments</b>	<b>66,021</b>	<b>78,400</b>

The debt securities have effective interest rates and maturity dates as follows:

	2015	2014
Effective interest rates (%)	0.4 – 3.6	1.1 – 2.8
Maturity dates (years)	1 - 6	1 - 5



## 7. Capital Assets

(\$000's)	2015			2014
	Cost	Accumulated Amortization	Net	Net
Land and buildings	25,395	22,173	3,222	3,773
Building improvements	25,026	18,336	6,690	6,777
Furniture, equipment and computer hardware	3,221	2,967	254	599
<b>Total capital assets</b>	<b>53,642</b>	<b>43,476</b>	<b>10,166</b>	<b>11,149</b>

## Intangible Assets

(\$000's)	2015			2014
	Cost	Accumulated Amortization	Net	Net
Computer software	6,234	5,215	1,019	1,400
<b>Total intangible assets</b>	<b>6,234</b>	<b>5,215</b>	<b>1,019</b>	<b>1,400</b>

## 8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is \$617,000 in government remittances, primarily sales taxes (2014 – \$258,000).

The accounts receivable balance comprises:

(\$000's)	2015	2014
Accounts receivable	26,348	19,186
Allowance for doubtful accounts	17,279	15,418
<b>Accounts receivable – net</b>	<b>9,069</b>	<b>3,768</b>

The allowance for doubtful accounts mainly relates to monitoring and enforcement receivables and annual fees receivable.

## 9. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act

enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$4,226,000 (2014 – \$3,712,000).

## **10. Other Trust Funds**

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2015, total funds held in trust amount to \$4,942,000 (2014 – \$2,449,000).

## **11. Other Revenues**

Included in other revenues are administrative fees, catering, monitoring & enforcement revenues, *Ontario Reports* royalties, the LibraryCo administration fee and other miscellaneous revenue.

## **12. Other Expenses**

Included in Convocation, policy and outreach expenses are payments for the total remuneration of elected, ex-officio benchers and lay benchers during the year of \$843,000 (2014 – \$972,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was \$563,000 (2014 – \$544,000). The Treasurer’s honorarium for the year was \$191,000 (2014 – \$185,000).

## **13. Interfund Transfers**

During the year the following interfund transfers took place which have been approved by Convocation:

- \$2,606,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society’s accounting policies;
- \$16,000 from the County Libraries Fund to the lawyer General Fund;
- \$112,000 from the lawyer General Fund to the Capital Allocation Fund representing outside event revenue allocated to maintain facilities;
- \$100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2015 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$185,000 from the Special Projects Fund to the lawyer General Fund;
- \$1,500,000 from the E&O Fund to the lawyer General Fund as provided in the 2015 budget representing accumulated investment income, surplus to the needs of the E&O Fund.

## **14. Pension Plan**

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elect to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the

Canada Revenue Agency. The Society's pension expense in 2015 amounted to \$2,521,000 (2014 – \$2,526,000).

## 15. Commitments

The Society is committed to monthly lease payments for property under leases having various terms up to July 2026. Aggregate minimum annual payments to the expiry of the leases are approximately as follows:

2016	\$887,000
2017	\$887,000
2018	\$887,000
2019	\$887,000
2020	\$963,000
Thereafter	<u>\$6,781,000</u>
Total	\$11,292,000

In 2012, the Society renewed a five-year commitment in the annual amount of \$138,000 to the Law Commission of Ontario to support its operations.

## 16. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Except as set out in the next paragraph, management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

Members failing to meet their professional and ethical obligations are subject to the Society's regulatory process. Regulatory proceedings may result in cost awards against the Society. At the end of 2015, in management's judgement, there is at least a reasonable possibility that a contingent liability relating to one or more cost awards may exist but the amount of any losses cannot be reliably estimated. From its regulatory proceedings, the Society has determined that the ultimate settlement for costs awards could range from nil to approximately \$5 million.

## 17. Comparative figures

Certain of the prior year balances have been reclassified to conform to the current year presentation.

## 18. Restricted Funds

A schedule of Restricted Funds is set out below.

		2015										2014				
		Compensation Fund		Errors and omissions insurance		Capital allocation		Invested in capital and intangible assets		County libraries		Other restricted		Total Restricted funds		
		Lawyer	Paralegal													
<b>Fund balances, beginning of year</b>		15,618	426	58,305	8,096	12,549	-	1,127	96,121	110,263						
<b>Revenues</b>																
Annual fees		8,590	612	-	2,977	-	7,712	300	20,191	19,492						
Insurance premiums and levies		-	-	113,103	-	-	-	-	113,103	104,415						
Investment income		960	-	584	-	-	-	-	1,544	1,919						
Change in fair value of investments		(1,016)	-	(596)	-	-	-	-	(1,612)	814						
Other		94	-	-	123	(273)	-	-	(56)	597						
<b>Total revenues</b>		<b>8,628</b>	<b>612</b>	<b>113,091</b>	<b>3,100</b>	<b>(273)</b>	<b>7,712</b>	<b>300</b>	<b>133,170</b>	<b>127,237</b>						
<b>Expenses</b>																
Allocated expenses		7,246	582	-	-	-	-	-	7,828	7,872						
Direct expenses		2,095	15	115,554	1,986	3,697	7,696	443	131,486	137,879						
<b>Total expenses</b>		<b>9,341</b>	<b>597</b>	<b>115,554</b>	<b>1,986</b>	<b>3,697</b>	<b>7,696</b>	<b>443</b>	<b>139,314</b>	<b>145,751</b>						
<b>(Deficit) Surplus</b>		(713)	15	(2,463)	1,114	(3,970)	16	(143)	(6,144)	(18,514)						
<b>Interfund transfers</b>		-	-	(1,500)	(2,494)	2,606	(16)	(85)	(1,489)	4,372						
<b>Fund balances, end of year</b>		<b>14,905</b>	<b>441</b>	<b>54,342</b>	<b>6,716</b>	<b>11,185</b>	<b>-</b>	<b>899</b>	<b>88,488</b>	<b>96,121</b>						

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