



**The Law Society
of British Columbia**

Financial Statements

December 31, 2019

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Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through three separate funds: the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund. Society management has the responsibility for assisting the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and that appropriate accounting and internal controls are maintained. The 2019 audited financial statements for the three funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Chartered Professional Accountants of Canada.

During 2019, in addition to the general oversight by the Benchers, the Finance and Audit Committee assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers and the Finance and Audit Committee included:

- Reviewing periodic financial statements of the General, Special Compensation and Consolidated Lawyers Insurance Fund
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Report prepared by the Law Society auditors
- Recommending the 2020 practice fees and insurance assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

General Fund

Overview

Overall, the 2019 results for the General Fund resulted in an operating surplus of \$2.6 million, after the transfer of net assets from the trust assurance program to the Lawyers Insurance Fund. Revenues were higher than expected, particularly in the areas of practice fees, enrollment fees, application fees, interest income, and legal defense insurance recoveries. Operating expenses increased over the prior year primarily due to market based salary adjustments, employee benefit costs as a result of the Employer Health Tax which came into effect at the start of the year, costs in delivering the Professional Legal Training Course to match the increased number of students, increased staff resources in Trust Assurance, and increased staff resources and external counsel fees in Discipline with an increased number of hearings.

Revenues

General Fund revenue was \$34.1 million, \$2.3 million higher than 2018 partly due to the growth in the number of lawyers and an increase in the 2019 practice fee. During 2019, net growth in the number of full-time equivalent practicing lawyers was 2.9% resulting in a total of 12,572 full fee paying

equivalent lawyers for the year, compared to 12,223 in 2018. Professional Legal Training Course (PLTC) enrolment revenue was higher in 2019, with 656 PLTC students during the year, compared with 540 in the prior year. The trust administration fee (TAF) revenue decreased 14% due to a decrease in the number of TAF-related transactions arising from a reduction in activity in the real estate market. Electronic filing revenues also decreased with a reduction in the real estate market. Other income increased over 2018 with the receipt of legal defense insurance recoveries.

The Lawyers Insurance Fund contributed \$2.1 million to the General Fund for co-sponsored programs and for general program and administrative expenses attributable to operations.

Expenses

The 2019 General Fund expenses increased by \$3 million (10.3%) to \$32.5 million, compared to \$29.5 million in 2018.

Bencher Governance and Support expenses were similar to 2018.

Communication and Information Services total costs were the similar to 2018, with increased costs for market based salary adjustments and benefits and the addition of one staff member, offset by printing cost savings realized from providing the Benchers' Bulletin and Members' Manual online.

Education and Practice expenses were higher than 2018 by \$1.1 million, with increases primarily related to market based salary adjustments and benefits and additional PLTC program expenses due to the increase in students.

General and administration costs remained fairly stable overall with increases in market based staff salary adjustments and benefits offset by savings in storage costs and consulting.

Policy and Legal Services expenses remained fairly stable over 2018, with decrease in external counsel fees offset by market based staff salary adjustments and benefits.

Regulation operating expenses increased \$1.8 million over 2018, due to higher external counsel fees and staffing costs for a higher number of Discipline hearings held during 2019, market based salary adjustments and benefits, and increased staffing costs in Trust Assurance.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2019, net assets in the General Fund were \$26.3 million. The net assets include \$3 million in capital funding for planned capital projects related to the 845 Cambie Street building and workspace improvements for Law Society operations. Pursuant to reserve policy, during the year \$1.16 million of net assets related to trust assurance was transferred to the Lawyers Insurance Fund for Part B coverage. After this transfer, at December 31, 2019, the net assets include \$2.0 million of trust assurance reserves. The remaining General Fund net assets are \$21.3 million, of which \$12.9 million is invested in capital assets, mainly the 845 Cambie Street building, and \$8.4 million is in working capital.

Special Compensation Fund

Overview

Previously, the Special Compensation Fund was maintained pursuant to Section 31 of the *Legal Profession Act*, was financed by members' annual assessments, and claims were recorded net of recoveries when they had been approved for payment. In 2012, the *Legal Profession Amendment Act, 2012* repealed section 31 of the *Legal Profession Act*. In addition, Section 23 of the *Legal Profession Act* was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Section 50 of the *Legal Profession Amendment Act, 2012* provides for the transfer of unused reserves that remain within the Special Compensation Fund to the Lawyers Insurance Fund for the purposes of the insurance program, which has provided insurance coverage since 2004 for dishonest appropriation of money or other property entrusted to and received by insured lawyers. In 2017, pursuant to Section 50 of the *Legal Profession Amendment Act*, \$1 million of unused reserves were transferred to the Lawyers Insurance Fund and the remainder was held in the Special Compensation fund to offset expected external counsel fees. Most of the remaining reserves are expected to be used in subsequent years to offset external counsel costs.

Revenues/Expenses

There were no claims costs in 2019 since the Lawyers Insurance Fund has been providing coverage for dishonest appropriation of funds by lawyers since 2004. During the year, \$3,000 of interest income was earned. In addition, external counsel costs of \$104,000 were incurred for specific file activity.

Net Assets

At the end of 2019, the Special Compensation Fund net assets were \$58,000.

Lawyers Insurance Fund

Overview

The Lawyers Insurance Fund remains in a strong financial position at the end of 2019. Revenue from annual assessments was slightly higher due to additional insured members and overall investment returns were slightly above the benchmark.

Revenues

The 2019 insurance assessment remained at \$1,800 per insured member, resulting in total revenue of \$16.1 million, compared to \$15.7 million in 2018.

During 2019, the long term investment portfolio performed well, earning a return of 14.1%, compared to a benchmark return of 13.1%. All increases in the market value of the investment portfolio have been recognized through the statement of revenue and expenses in accordance with Canadian accounting standards for not-for-profit organizations.

Expenses

In 2019, the Lawyers Insurance Fund general operating costs, including the \$2.1 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were \$6.9 million, compared to \$6.6 million in 2018. The increase is primarily due to market based staff salary adjustments and benefits and increased investment management fees.

The net actuarial provision for settlement of claims for the year was \$12.9 million, a decrease of \$3.6 million from 2018. The 2019 claims provision was lower due to net adjustment to required reserves for claims relating mainly to prior years. The provision for claims liabilities on the balance sheet at the end of 2019 was \$76.5 million, compared to \$74.3 million at the end of 2018.

Net Assets

As of December 31, 2019, the Lawyers Insurance Fund net assets were \$97.9 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$80.4 million in unrestricted net assets.

Other Matters

In 2014, the Law Society heard from the Financial Institutions Commission (“FICOM”), now called British Columbia Financial Services Authority (“BCFSFA”), about their concerns with the Law Society’s captive insurance company and the Law Society’s insurance program. Following discussions with BCFSFA, the Ministry of Finance and the Ministry of Justice, it was agreed that the Law Society would pursue an exemption from certain statutory requirements.

Effective January 1, 2020, Section 30 of the Legal Profession Act was amended to change any reference to “insurance” to “indemnification”. New Section 30.1 provides that the Law Society or any subsidiary (except for a captive insurer) that operates such an indemnification program is not an insurer as defined in the Financial Institutions Act or the Insurance Act, nor are they carrying on insurance business in B.C. Effective January 1, 2020, the Lawyers Insurance Fund will now be called the Lawyers Indemnity Fund.

**The Law Society of British
Columbia - General and
Special Compensation
Funds**

Fund Financial Statements
December 31, 2019



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia - General and Special Compensation Funds (the Society's General and Special Compensation Funds) as at December 31, 2019 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.

What we have audited

The Society's General and Special Compensation Funds's financial statements comprise:

- the fund statement of financial position as at December 31, 2019;
- the fund statement of changes in net assets for the year then ended;
- the fund statement of revenue and expenses for the year then ended;
- the fund statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Society's General and Special Compensation Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Society's General and Special Compensation Funds's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society's General and Special Compensation Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's General and Special Compensation Funds's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Society's General and Special Compensation Funds's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's General and Special Compensation Funds's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society's General and Special Compensation Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 6, 2020

The Law Society of British Columbia - General and Special Compensation Funds

Fund Statement of Financial Position

As at December 31, 2019

			2019	2018
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Assets				
Current assets				
Cash (note 2)	37,681,219	-	37,681,219	23,107,222
Unclaimed trust funds (note 2)	2,215,017	-	2,215,017	2,026,342
Accounts receivable and prepaid expenses (note 3)	1,926,518	-	1,926,518	1,478,215
Due from Lawyers Insurance Fund (note 9)	6,023,524	58,497	6,082,021	16,881,715
	47,846,278	58,497	47,904,775	43,493,494
Non-current assets				
Cambie Street property – net (note 4(a))	12,212,617	-	12,212,617	12,908,741
Other property and equipment – net (note 4(b))	1,236,982	-	1,236,982	1,233,062
Intangible assets – net (note 4(c))	498,909	-	498,909	376,902
Long-term loan receivable (note 5)	365,469	-	365,469	276,390
	62,160,255	58,497	62,218,752	58,288,589
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	7,110,499	-	7,110,499	6,546,417
Liability for unclaimed trust funds (note 2)	2,215,017	-	2,215,017	2,026,342
Current portion of building loan payable (note 8)	500,000	-	500,000	500,000
Deferred revenue (note 2)	25,431,367	-	25,431,367	24,237,219
Deferred capital contributions	-	-	-	741
Deposits	56,005	-	56,005	55,105
	35,312,888	-	35,312,888	33,365,824
Building loan payable (notes 8 and 9)	600,000	-	600,000	1,100,000
	35,912,888	-	35,912,888	34,465,824
Net assets				
Unrestricted (note 7)	26,247,367	58,497	26,305,864	23,822,765
	62,160,255	58,497	62,218,752	58,288,589

Commitments (note 14)

Approved by



President



Chair of Finance and Audit Committee

The accompanying notes are an integral part of these fund financial statements.

The Law Society of British Columbia - General and Special Compensation Funds

Fund Statement of Changes in Net Assets

For the year ended December 31, 2019

			<u>2019</u>	<u>2018</u>
	General Fund - Unrestricted \$	Special Compensation Fund - Unrestricted \$	Total \$	Total \$
Net assets – Beginning of year	23,663,516	159,249	23,822,765	21,273,542
Net excess (deficiency) of revenue over expenses for the year	2,583,851	(100,752)	2,483,099	2,549,223
Net assets – End of year (note 7)	<u>26,247,367</u>	<u>58,497</u>	<u>26,305,864</u>	<u>23,822,765</u>

The accompanying notes are an integral part of these fund financial statements.

The Law Society of British Columbia - General and Special Compensation Funds

Fund Statement of Revenue and Expenses

For the year ended December 31, 2019

			2019	2018
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Revenue				
Practice fees	24,212,553	-	24,212,553	22,001,783
Trust administration fees	3,470,785	-	3,470,785	4,048,339
Enrolment fees	1,882,422	-	1,882,422	1,513,650
E-filing revenue	766,429	-	766,429	832,643
Fines, penalties and recoveries	403,378	-	403,378	446,388
Application fees	616,188	-	616,188	555,075
Investment income (note 9)	630,295	2,856	633,151	647,233
Other income	1,118,950	-	1,118,950	864,591
Rental revenue	1,043,490	-	1,043,490	981,243
	34,144,490	2,856	34,147,346	31,890,945
Expenses				
Benchers governance and support	1,693,301	-	1,693,301	1,719,062
Communications and publications	700,378	-	700,378	723,677
Information services	1,675,716	-	1,675,716	1,580,343
Education and practice				
Credentials	839,436	-	839,436	680,188
Member services	902,539	-	902,539	812,209
Membership assistance programs	78,360	-	78,360	89,520
Practice advice	665,597	-	665,597	610,463
Practice standards	644,107	-	644,107	585,249
Professional legal training course and education	2,728,522	-	2,728,522	2,016,427
General and administrative				
Finance	1,191,870	-	1,191,870	1,094,188
Amortization of other property and equipment	446,470	-	446,470	453,131
General administration	1,283,743	-	1,283,743	1,262,263
Human resources	646,979	-	646,979	737,421
Records management and library	247,591	-	247,591	319,373
Policy and legal services				
Policy, ethics and tribunal counsel	1,985,329	-	1,985,329	1,826,607
External litigation and interventions	110,678	-	110,678	249,093
Unauthorized practice	275,274	-	275,274	300,906
Regulation				
Custodianship costs	1,617,402	-	1,617,402	1,624,173
Discipline	2,892,588	-	2,892,588	1,785,168
Professional conduct – intake and investigations	5,597,760	-	5,597,760	5,641,201
Forensic accounting	818,794	-	818,794	719,125
Trust assurance	2,975,003	-	2,975,003	2,324,250
Occupancy costs, net of tenant recoveries	2,475,257	-	2,475,257	2,312,889
Carried forward	32,492,694	-	32,492,694	29,466,926

The Law Society of British Columbia - General and Special Compensation Funds

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2019

			2019	2018
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Brought forward	32,492,694	-	32,492,694	29,466,926
Special Compensation Fund General and administrative costs	-	103,608	103,608	123,943
	32,492,694	103,608	32,596,302	29,590,869
Costs recovered Lawyers Insurance Funds				
Co-sponsored program costs	(701,657)	-	(701,657)	(699,983)
Program and administrative costs	(1,390,398)	-	(1,390,398)	(1,329,164)
	(2,092,055)	-	(2,092,055)	(2,029,147)
	30,400,639	103,608	30,504,247	27,561,722
Net excess (deficiency) of revenue over expenses for the year before contribution to Lawyers Insurance Fund	3,743,851	(100,752)	3,643,099	4,329,223
Contribution from Trust Assurance Net Assets to Lawyers Insurance Fund (note 7)	1,160,000	-	1,160,000	1,780,000
Net excess (deficiency) of revenue over expenses for the year	2,583,851	(100,752)	2,483,099	2,549,223

The accompanying notes are an integral part of these fund financial statements.

The Law Society of British Columbia - General and Special Compensation Funds

Fund Statement of Cash Flows

For the year ended December 31, 2019

			2019	2018
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Cash provided by (used in)				
Operating activities				
Net excess (deficiency) of revenue over expenses for the year	2,583,851	(100,752)	2,483,099	2,549,223
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	986,773	-	986,773	984,922
Amortization of other property and equipment	327,488	-	327,488	319,623
Amortization of intangible assets	118,281	-	118,281	133,508
Amortization of deferred capital contributions	(741)	-	(741)	(741)
Reclass and adjustment of capital assets	13,216	-	13,216	-
Loss (gain) on disposal of other property and equipment	3,483	-	3,483	(2,306)
Contributions to Lawyers Insurance Fund	1,160,000	-	1,160,000	1,780,000
	5,192,351	(100,752)	5,091,599	5,764,229
(Increase) decrease in current assets				
Unclaimed trust funds	(188,675)	-	(188,675)	(10,693)
Accounts receivable and prepaid expenses	(448,303)	-	(448,303)	200,181
Courthouse Libraries BC Fund	-	-	-	787,498
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	564,081	-	564,081	256,622
Liability for unclaimed trust funds	188,675	-	188,675	10,693
Deferred revenue	1,194,148	-	1,194,148	2,183,562
Courthouse Libraries BC Fund	-	-	-	(787,498)
Deposits	900	-	900	(3,000)
	6,503,177	(100,752)	6,402,425	8,401,594
Financing activities				
Decrease in building loan payable	(500,000)	-	(500,000)	(500,000)
Interfund transfers	9,538,942	100,752	9,639,694	(1,000,668)
	9,038,942	100,752	9,139,694	(1,500,668)
Investing activities				
Purchase of property and equipment	(634,757)	-	(634,757)	(1,984,874)
Purchase of intangible assets	(240,287)	-	(240,287)	(165,870)
Long-term loan receivable	(89,078)	-	(89,078)	(276,390)
	(964,122)	-	(964,122)	(2,427,134)
Increase in cash	14,577,997	-	14,577,997	4,473,792
Cash – Beginning of year	23,107,222	-	23,107,222	18,633,430
Cash – End of year	37,685,219	-	37,685,219	23,107,222
Supplementary cash flow information				
Interest paid	25,780	-	25,780	45,839
Interest income received	643,551	2,856	646,407	660,334

The accompanying notes are an integral part of these fund financial statements.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting public interest in the administration of justice by setting and enforcing standards of professional conduct for lawyers. The Society is a not-for-profit organization.

The funds covered in these fund financial statements are for the Society's General Fund and Special Compensation Fund with the following activities:

The General Fund comprises the assets, liabilities, net assets, revenue and expenses of the operations of the Society other than those designated to the statutory Special Compensation Fund and the Lawyers Insurance Fund (including its wholly owned subsidiary, LSBC Captive Insurance Company Ltd.). This includes collecting revenues associated with practice fees, trust administration fees, enrollment fees, and various other administrative fees and penalties used to cover the costs of the Society to regulate the legal profession and educate and enforce adherence of its members to act within the rules of professional conduct for lawyers.

The Special Compensation Fund was maintained by the Society pursuant to Section 31 of the Legal Profession Act (the LPA). The Special Compensation Fund claims were recorded net of recoveries from the Special Compensation Fund's insurers when they were approved for payment by the Special Compensation Fund Committee as delegated by the Benchers and the settlement has been accepted by the claimant. The LPA provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

Effective January 1, 2013, the Legal Profession Amendment Act, 2012 repealed Section 31 of the LPA. The legislation was changed pursuant to Section 50 of the Legal Profession Amendment Act, 2012 (SBC 2012, C16), to initiate the transfer of unused reserves that remain within the Special Compensation Fund, after all recoveries are received and expenses and claims are paid, to be used in the Lawyers Insurance Fund. Additionally, Section 23 of the LPA was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Accordingly, for 2019, the per member Special Compensation Fund assessment remained at \$nil (2018 – \$nil).

Effective May 1, 2004, Part B to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity as barrister and solicitor and in relation to the provision of professional services. Part B (Trust Protection Coverage) is recorded in the Lawyers Insurance Fund.

The Society's Lawyers Insurance Fund is presented separately in consolidated fund financial statements, including the Society's wholly owned LSBC Captive Insurance Company Ltd. (the Captive). The Lawyers Insurance Fund underwrites the program by which errors and omissions insurance is provided to members of the Society. The Lawyers Insurance Fund's consolidated fund financial statements provide further detail on the various insurance coverages provided.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

2 Significant accounting policies

These fund financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund from both the Lawyers Insurance and Special Compensation Funds. Recoveries are based on amounts derived either on percentage of use, the proportion of the Lawyers Insurance Fund's staff compared to the Society's total staff costs, or a set amount.

Cash

Cash comprises cash on hand and held with a Canadian chartered bank.

Claims liabilities

In accordance with the absolute discretionary nature of the Special Compensation Fund arrangements, the claims become a liability only when approved by the Special Compensation Fund Committee and accepted by the claimant.

Deferred capital contributions

Contributions restricted for the purchase of capital assets are deferred and recognized as revenue on the same basis as the capital assets are amortized.

Fair value of financial instruments

The fair values of cash, accounts receivable and accounts payable and accrued liabilities correspond to their carrying values due to their short-term nature.

Intangible assets

Intangible assets comprise computer software. Software is recorded at cost and amortized on a straight-line basis at 10% – 20% per annum.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

Property and equipment

Property and equipment, including leasehold improvements, are recorded at cost less accumulated amortization.

The Society provides for amortization on a straight-line basis as follows:

Buildings	40 years from purchase date
Building – Envelope	7% per annum
Computer hardware	10% - 20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum
Building improvements and equipment	10% per annum
Tenant improvements	over lease period

The Society recognizes a full year's amortization expense in the year of acquisition, with the exception of building improvements and equipment and leasehold improvements which are amortized from their date of completion.

Revenue recognition

The Society follows the deferral method of accounting for practice fees and assessments. Fees and assessments are billed and received in advance on a calendar-year basis. Accordingly, fees and assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in a high interest savings account.

All other revenues are recognized when earned if the amount to be received can be reasonably estimated and collection is reasonably assured.

Unclaimed trust funds

The General Fund recognizes unclaimed trust funds as an asset as well as a corresponding liability on the fund statement of financial position. If these funds are claimed, the owner of the trust fund balance is entitled to the principal balance plus interest at prime rate minus 2%. Due to the historically low collection rates on these balances, the General Fund does not accrue for any interest owing on the trust fund amounts held and recognizes income earned from the unclaimed trust fund investments in the fund statement of revenue and expenses. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation of British Columbia.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

Use of estimates

The preparation of fund financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the fund financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

3 Accounts receivable and prepaid expenses

Accounts receivable are presented net of the allowance for doubtful accounts of \$1,106,645 (2018 – \$1,005,743).

4 Property, equipment and intangible assets

a) 845 Cambie Street property

	2019		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	4,189,450	-	4,189,450
Buildings and equipment	16,706,689	10,094,290	6,612,399
Leasehold improvements	7,639,317	6,331,689	1,307,628
Tenant improvements	826,619	723,479	103,140
	29,362,075	17,149,458	12,212,617
	2018		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Land	4,189,450	-	4,189,450
Buildings and equipment	16,610,686	9,397,083	7,213,603
Leasehold improvements	7,444,671	6,077,810	1,366,861
Tenant improvements	826,619	687,792	138,827
	29,071,426	16,162,685	12,908,741

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

b) Other property and equipment

	2019		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Furniture and fixtures	2,920,478	2,118,195	802,283
Computer hardware	1,536,233	1,105,291	430,942
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	4,505,873	3,268,891	1,236,982
	2018		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Furniture and fixtures	3,259,800	2,408,819	850,981
Computer hardware	1,586,312	1,207,988	378,324
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	4,895,274	3,662,212	1,233,062

c) Intangible assets

	2019		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Computer software	2,084,686	1,630,070	454,616
Website development	110,733	66,440	44,293
	2,195,419	1,696,510	498,909

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

	2018		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Computer software	1,844,397	1,533,935	310,462
Website development	110,733	44,293	66,440
	1,955,130	1,578,228	376,902

5 Long-term loan receivable

In 2018, the Society agreed to participate with other Canadian law societies in a collective loan of \$2 million to the Canadian Legal Information Institute (CanLII), a wholly owned subsidiary of the Federation of Law Societies of Canada (FLSC). The loan is part of the financing for the purchase by CanLII of LexUM, a corporation providing support services to CanLII for the implementation of CanLII's legal information website. The Law Society's participation in this loan was \$276,390 in 2018. Part of the Society's support of this transaction are annual repayable capital payments of \$89,079 in 2019, \$86,257 in 2020 and \$83,435 in 2021 to fund three annual balance of sale payments to the vendors of Lexum as provided in a Subordination and Commitment Agreement. Amounts advanced under this agreement earn interest at the same rate as the amount advanced under the collective loan. In 2019, the Society's total participation in this loan is \$365,469 (2018 - \$276,390) The loan has a five-year term with an annual interest rate of 4.74%, payable annually. The interest earned in the current year relating to the loan was \$13,256.

6 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include the following amounts collected on behalf of external organizations, but not yet paid:

	2019	2018
	\$	\$
Advocate	331,487	320,324
Courthouse Libraries BC	2,775,015	2,504,651
Lawyers Assistance Program	791,161	786,659
Pro bono	355,733	346,743
CanLII	484,063	464,509
Federation of Law Societies	365,915	417,853

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

7 Unrestricted net assets

The General Fund unrestricted net assets include \$3,000,219 (2018 – \$2,166,663), which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$1,989,501 (2018 – \$2,955,460), which has been appropriated for future trust assurance expenses. During the year, \$3,470,785 (2018 – \$4,048,339) in trust administration fee revenue was collected and \$3,276,744 (2018 – \$2,625,990) in trust assurance expenses were incurred.

Pursuant to the reserve policy, \$1,160,000 of the net assets related to trust assurance was transferred to the Lawyers Insurance Fund for Part B coverage 2019 (2018 – \$1,780,000).

The remaining General Fund net assets represent \$12,848,509 (2018 – \$12,918,705) invested in capital assets, and working capital of \$8,409,140 (2018 – \$5,622,687), combining for a total unrestricted net asset amount of \$21,257,649 (2018 – \$18,541,392).

	(in 000s)					2019	2018
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets – Beginning of year	12,919	5,623	18,542	2,955	2,166	23,663	20,997
Net (deficiency) excess of revenue over expenses before contribution to Lawyers Insurance Fund	(1,449)	2,786	1,337	194	2,213	3,744	4,446
Contribution to Lawyers Insurance Fund				(1,160)		(1,160)	(1,780)
Repayment of building loan payable (note 8)	500		500		(500)	-	-
Purchase of capital assets (note 4)	879		879		(879)	-	-
Net assets – End of year	12,849	8,409	21,258	1,989	3,000	26,247	23,663

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

8 Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan is secured by the buildings, has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. Interest paid on the building loan is disclosed in note 9. The outstanding building loan balance at year-end is \$1.1 million (2018 – \$1.6 million). It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2019, principal of \$500,000 (2018 – \$500,000) was repaid. The loan will be paid off in total by 2022.

	2019	2018
	%	%
Weighted average rate of interest	2.29	2.83

9 Interfund transactions

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Balances between the funds generally arise from transactions of an operating nature and are recorded at the exchange amount at the dates of the transactions. Surplus funds are kept in the General Fund bank accounts or invested in a high interest savings account.

Amounts due to and from the Lawyers Insurance Fund are due on demand and have no fixed terms of repayment. The Lawyers Insurance Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down at December 31, 2019 (2018 – \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan. The Lawyers Insurance Fund has also authorized a loan facility of up to \$8 million, to the Special Compensation Fund, which is not expected to be used as the Special Compensation Fund is in the process of being wound up. As of December 31, 2019, no amounts have been drawn down from the facilities (2018 – \$nil).

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is earned at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. The average bond yield for 2019 was 2.29% (2018 – 2.83%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Insurance Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund to finance ongoing operations.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

During 2019, interest of \$25,780 was paid on the building loan and interest revenue of \$264,139 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$2,755 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$241,114.

During 2018, interest of \$45,839 was paid on the building loan and interest revenue of \$455,342 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$6,458 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$415,961.

Other interfund transactions are disclosed elsewhere in these fund financial statements.

10 Special Compensation Fund claims and program changes

a) Outstanding claims

Pursuant to section 31(6) of the Legal Profession Act, the payment of Special Compensation Fund claims is at the discretion of the Special Compensation Fund Committee as delegated by the Benchers. As at December 31, 2019, there were no remaining claims for which statutory declarations had been received. All claims for which statutory declarations were received have been reviewed by the Special Compensation Fund Committee.

For claims reported prior to May 1, 2004, the insurance bond provided that total claims attributable to the period in excess of \$2,500,000 were 100% reimbursed by a commercial insurer up to a maximum of \$15,000,000 for claims against one lawyer and in total, other than as noted in note 10(b). As set out in note 1, claims reported after May 1, 2004 are subject to Part B coverage by the Lawyers Insurance Fund.

b) Wirick case

In May 2002, the Discipline Committee ordered an audit investigation, pursuant to Rule 4-43, of Martin Keith Wirick's practice.

At December 31, 2019, there were no remaining claims still under consideration.

Until May 1, 2004, the Special Compensation Fund carried insurance of \$15,000,000 for each bond period (\$17,500,000) total coverage with a deductible of \$2,500,000. The bond period is defined as the year in which the Society becomes aware of evidence indicating a member may have been guilty of an act or acts of misappropriation or wrongful conversion. All claims concerning Mr. Wirick fell into the 2002 bond period and, as such, the Special Compensation Fund had claims greater than its level of insurance. In early 2005, the final proof of loss that reached this limit was filed. In 2002, the Benchers agreed to allow the Special Compensation Fund Committee to exceed the \$17,500,000 cap they had imposed in the Society rules.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

In 2006, the Benchers approved a payment of \$7,543,528 to be paid to claimants over four years commencing in fiscal 2007 at \$1,885,882 per year. The final payment was made in 2010.

In December 2012, the Benchers approved a further payment of \$162,399 that was paid to claimants in 2013.

In 2019, the Special Compensation Fund recovered \$nil (2018 – \$nil) related to the Wirick case.

11 Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2019, expenses of \$28,826 (2018 – \$244,128) recorded at carrying amount were incurred by the General Fund during the normal course of business with these law firms.

12 Capital management

The Society defines its capital as the amounts included in its unrestricted net assets. Its objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to fulfill its objectives and meet its requirements.

13 Financial instruments

The General and Special Compensation Funds' financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

The significant financial risks to which the Society is exposed are credit risk and liquidity risk.

a) Credit risk

Cash and accounts receivable expose the Funds to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$38,787,865 (2018 – \$24,303,331). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) Liquidity risk

Liquidity risk is the risk that the Funds will not be able to meet all cash outflow requirements. Financial instruments held by the Society are limited to cash, accounts receivable and accounts payable and accrued liabilities and, therefore, bear no significant liquidity risk.

The Law Society of British Columbia - General and Special Compensation Funds

Notes to Fund Financial Statements

December 31, 2019

14 Obligations and commitments under operating leases

The Society has committed to payments under certain operating leases relating to vehicle costs. Future minimum lease payments required in each of the next four fiscal years are:

	\$
2020	5,304
2021	5,304
2022	5,304
2023	<u>2,652</u>
Total future minimum lease payments	<u>18,564</u>

For the year ended December 31, 2019, an amount of \$6,037 representing payments under operating leases was expensed (2018 – \$6,804).

**The Law Society of British
Columbia – Lawyers
Insurance Fund**

Consolidated Fund Financial Statements
December 31, 2019



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia - Lawyers Insurance Fund and its subsidiaries (together, the Fund) as at December 31, 2019 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.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated fund statement of financial position as at December 31, 2019;
 - the consolidated fund statement of changes in net assets for the year then ended;
 - the consolidated fund statement of revenue and expenses for the year then ended;
 - the consolidated fund statement of cash flows for the year then ended; and
 - the notes to the consolidated financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 6, 2020

The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Financial Position

As at December 31, 2019

	2019 \$	2018 \$
Assets		
Cash	927,269	10,868,764
Accounts receivable – net of allowance (note 3)	312,371	293,678
Prepaid expenses	45,945	32,793
Short-term investments (note 5)	7,546,680	7,390,721
Members' share of provision for claims	1,442,764	1,377,249
General Fund building loan (note 7)	1,100,000	1,600,000
Investments (note 6)	191,282,480	166,899,382
	<u>202,657,509</u>	<u>188,462,587</u>
Liabilities		
Accounts payable and accrued liabilities (notes 4 and 8)	2,141,921	1,583,217
Deferred revenue	8,143,703	7,957,610
Due to General Fund (note 10)	6,023,524	16,722,466
Due to Special Compensation Fund (note 10)	58,496	159,249
Provision for claims (note 9)	76,509,061	74,340,380
Provision for ULAE (note 9)	11,860,000	10,779,000
	<u>104,736,705</u>	<u>111,541,922</u>
Net assets		
Unrestricted net assets	80,420,804	59,420,665
Internally restricted net assets (note 11)	17,500,000	17,500,000
	<u>97,920,804</u>	<u>76,920,665</u>
	<u>202,657,509</u>	<u>188,462,587</u>
Commitments (note 10)		

Approved by



President



Chair of Finance and Audit Committee

The accompanying notes are an integral part of these consolidated fund financial statements.

The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2019

	2019 \$	2018 \$
Revenue		
Annual assessments	16,140,477	15,724,169
Investment income (note 6)	7,849,782	6,725,629
Other income	76,230	60,100
	<u>24,066,489</u>	<u>22,509,898</u>
Insurance expenses		
Actuary, consultant and investment manager fees	839,918	801,265
Allocated office rent from General Fund	323,829	323,834
Contribution to program and administrative costs of General Fund	1,391,788	1,330,493
Insurance	394,044	394,293
Office	331,579	403,639
Premium taxes	9,056	9,116
Provision for settlement of claims (note 9)	12,896,115	16,531,000
Provision for ULAE (note 9)	1,081,000	1,178,000
Salaries, wages and benefits	2,913,092	2,639,440
	<u>20,180,421</u>	<u>23,611,080</u>
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	701,657	699,983
	<u>20,882,078</u>	<u>24,311,063</u>
Excess (deficiency) of revenue over expenses before the following	3,184,411	(1,801,165)
Fair value increase (decrease) in investments (note 6)	16,661,358	(7,300,769)
	19,845,769	(9,101,934)
Provision for income taxes	5,630	5,504
	19,840,139	(9,107,438)
Contribution from Trust Assurance Net Assets in General Fund (note 10)	1,160,000	1,780,000
Excess (deficiency) of revenue over expenses for the year	<u>21,000,139</u>	<u>(7,327,438)</u>

The accompanying notes are an integral part of these consolidated fund financial statements.

The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2019

			2019	2018
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
Net assets – Beginning of year	59,420,665	17,500,000	76,920,665	84,248,103
Excess (deficiency) of revenue over expenses for the year	21,000,139	-	21,000,139	(7,327,438)
Net assets – End of year	80,420,804	17,500,000	97,920,804	76,920,665

The accompanying notes are an integral part of these consolidated fund financial statements.

The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2019

	2019 \$	2018 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	21,000,139	(7,327,438)
Items not affecting cash		
Unrealized (gain) loss on investments	(15,803,698)	8,100,672
Realized gain on disposal of investments	(857,660)	(799,903)
Pooled distributions from investments	(7,826,035)	(6,851,530)
Contribution from General and Special Funds	1,160,000	1,780,000
	(2,327,254)	(5,098,199)
Decrease (increase) in assets		
Accounts receivable	(18,014)	153,330
Prepaid expenses	(13,152)	92,945
Short-term investments	(155,959)	(123,699)
Members' share of provision for claims	(149,677)	60,963
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	558,024	(59,570)
Deferred revenue	186,092	171,488
Provision for claims	2,252,844	5,183,053
Provision for ULAE	1,081,000	1,178,000
	1,413,904	1,558,311
Investing activities		
Decrease in General Fund building loan	500,000	500,000
Purchase of investments	(7,587,810)	(5,108,390)
Proceeds from disposal of investments	7,692,106	5,207,399
	604,296	599,009
Financing activities		
Interfund transfers (note 10)	(11,959,695)	(2,559,336)
Decrease in cash	(9,941,495)	(402,016)
Cash – Beginning of year	10,868,764	11,270,780
Cash – End of year	927,269	10,868,764
Supplementary cash flow information		
Interest paid	250,102	461,800
Interest income received	144,697	220,141

The accompanying notes are an integral part of these consolidated fund financial statements.

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting public interest in the administration of justice by setting and enforcing standards of professional conduct for lawyers.

The Society's fund covered in these consolidated fund financial statements is for the Lawyers Insurance Fund (the Fund) and the Society's only subsidiary, LSBC Captive Insurance Company (the Captive), that together comprise the Society's insurance program.

The Society's General Fund and Special Compensation Fund are presented in separate fund financial statements.

The Fund is maintained by the Society pursuant to Section 30 of the Legal Profession Act. The Captive is considered assessable for income tax under current legislation and is subject to regulation by the Financial Services Authority (BCFSA). Effective January 1, 1990, the Fund underwrites the program by which professional liability insurance is provided to eligible members of the Society.

Part A

The Society's members have limits of coverage for claims and potential claims arising from negligent acts, errors or omissions under Part A of the B.C. Lawyers Compulsory Professional Liability Insurance Policy (the Policy) as follows:

	\$		\$
The Fund	995,000	or	990,000
Deductible – applicable to indemnity payments only	5,000	or	10,000
Limit per error or related errors			1,000,000
Annual aggregate limit for all errors per insured lawyer			2,000,000

The amount of the member deductible is \$5,000 for each initial claim resulting in an indemnity payment and \$10,000 for each additional claim within a three-year reporting period resulting in an indemnity payment.

For claims reported between 1990 and 1996, the Captive entered into reinsurance contracts under which all claim payments above a per claim limit and in excess of inner aggregate retentions were ceded to reinsurers. Reinsurance does not relieve the Captive of primary liability as the originating insurer. All losses on claims since 1997 are fully reimbursed by the Fund on behalf of the Society under agreement.

For the 2019 and 2018 policy years, the Society and the Captive have obtained stop-loss reinsurance in the amount of \$12 million to cover aggregate payments over \$25 million for Parts A and C of the Policy. This limit is co-insured 80/20 with the reinsurer paying 80% of losses over \$25 million to a maximum of \$12 million and the Fund paying 20%.

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Part B

Effective May 1, 2004, Part B of the Policy provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity as barristers and solicitors and in relation to the provision of professional services.

For the 2019 and 2018 policy years, there is a \$300,000 per claim limit and a \$17.5 million profession-wide annual aggregate limit. The Society and the Captive have obtained insurance in the amount of \$5 million to cover a portion of the annual aggregate limit. There is no deductible payable by the member. This insurance is subject to a \$3 million group deductible and is co-insured 80/20 with the insurer paying 80% of losses over \$3 million to a maximum of \$5 million, and the Fund paying 20%.

Part C

Effective January 1, 2012, Part C of the Policy provides defined insurance coverage for trust shortages suffered by insured lawyers as a result of relying on fraudulent certified cheques. Effective January 1, 2017, Part C coverage was expanded to include coverage for certain other social engineering frauds.

For the 2019 and 2018 policy years, there is a limit of \$500,000 per claim, and per lawyer and firm annually, a profession-wide annual aggregate of \$2 million, and a deductible of 35% of the client trust fund shortage (reduced by the amount of any overdraft paid). Coverage, for relying on fraudulent certified cheques, is contingent upon compliance with the Society's client identification and verification rules.

2 Significant accounting policies

These consolidated fund financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Basis of consolidation

These consolidated fund financial statements include the accounts of the Fund and the Captive, a wholly owned subsidiary.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund of the Society from the Fund. Recoveries are based on amounts derived either on percentage of use or the proportion of the Fund's staff compared to the Society's total staff cost, or a set amount.

Cash

Cash comprises cash on hand and held with a Canadian chartered bank.

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Fair value of financial instruments

The fair values of cash, accounts receivable, short-term investments and accounts payable and accrued liabilities correspond to their carrying values due to their short-term nature.

The fair values of the provision for claims correspond to their carrying values because they are discounted.

The interfund balances including the building loan receivable and other interfund transactions are recorded at their carrying amounts which approximate their exchange amounts.

Short-term investments

Short-term investments consist of pooled money market funds, whose investments have original maturities of less than 90 days, and the carrying amount approximates the fair value at the reporting date due to their short-term maturities.

Investments

The Fund's investments consist of units in pooled equity, bond, real estate and mortgage funds and are initially and subsequently measured at fair value. Changes in fair value are recognized in the consolidated fund statement of revenue and expenses in the year incurred. Transaction costs that are directly attributable to the acquisition of these investments are recognized in the consolidated fund statement of revenue and expenses in the year incurred.

Investment income

Investment income and pooled fund distributions are recorded on an accrual basis. Dividends are recorded on the date of record. Gains and losses realized on the disposal of investments are taken into income on the date of disposal.

Provision for claims

The provision for claims and unallocated loss adjustment expenses (ULAE) represent an estimate for all external costs of investigating and settling claims and potential claims reported prior to the date of the consolidated fund statement of financial position. The provision is adjusted as additional information on the estimated amounts becomes known during the course of claims settlement. All changes in estimates are expensed in the current period. The Fund presents its claims on a discounted basis.

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Revenue recognition

The Fund follows the deferral method of accounting for annual assessments. Assessments are billed and received in advance on a calendar-year basis. Accordingly, assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

All other revenues are recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated fund financial statements and revenues and expenses for the period reported. The determination of the provision for claims and ULAE involves significant estimation. Actual results could differ from those estimates and the differences could be material.

Financial instruments

The Fund's financial instruments consist of cash, accounts receivable, short-term investments, investments and accounts payable and accrued liabilities.

The significant financial risks to which the Fund is exposed are credit risk, market risk, price risk, and liquidity risk.

Credit risk

Cash, short-term investments, accounts receivable, members' share of provision for claims, bond pooled funds and the investment in real estate mortgage indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$97,417,192 (2018 – \$98,605,817).

Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

The cash deposits are held only with Schedule I banks. The accounts receivable balances are spread across the broad membership base with no significant exposure to any one individual. The guidelines of the Society's statement of investment policies and procedures (SIPP) mitigate credit risk by ensuring the investments in the bond pooled funds have an adequate minimum credit rating and well-diversified portfolios.

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Market risk

Market risk is the potential for loss to the Fund from changes in the value of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices.

The Fund manages market risk by diversifying investments within the various asset classes and investing in pooled funds as set out in the Society's SIPP.

Price risk

Price risk is the risk that the fair value of the Society's investments will fluctuate due to changes in the market prices whether these changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. It arises primarily on pooled equity, bond, real estate and mortgage fund investments.

To manage price risk, the Society has guidelines on the diversification and weighting of investments within pooled funds which are set and monitored against the Society's SIPP.

As at December 31, 2019, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$19.1 million (2018 – \$16.7 – million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements.

At December 31, 2019, the sum of the Fund's cash, short-term investments and pooled fund investments, at fair value, which are available to settle the liabilities of the Society as they come due, exceeded the sum of the liabilities by \$95 million, or 91% (2018 – \$73.7 million, or 66%).

3 Accounts receivable

	2019	2018
	\$	\$
Member deductibles	572,740	507,578
Allowance for doubtful accounts	(376,238)	(368,222)
GST/HST receivable	113,523	131,638
Income tax receivable	5	-
Other receivables	2,341	22,684
	<hr/>	<hr/>
	312,371	293,678
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The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

4 Government remittances

The following government remittances are included in accounts payable:

	2019	2018
	\$	\$
Receiver General – corporate income tax	-	5,635
Ministry of Finance – premium tax	9,056	9,116
	<u>9,056</u>	<u>14,751</u>

5 Short-term investments

Short-term investments comprise pooled money market funds with the following balances:

	2019	2018
	\$	\$
Money market funds	<u>7,546,680</u>	<u>7,390,721</u>

6 Investments

	2019	2018
	\$	\$
Investments – at fair value	<u>191,282,480</u>	<u>166,899,382</u>

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

				2019
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	51,527,919	-	(216,811)	51,311,108
Equities				
Canadian Pooled Funds	25,901,689	15,024,426	-	40,926,115
International Pooled Funds	41,394,505	21,750,850	-	63,145,355
	67,296,194	36,775,276	-	104,071,470
Real Estate & Mortgage				
Real Estate Fund	14,521,175	4,562,792	-	19,083,967
Mortgage Fund	16,988,365	-	(172,430)	16,815,935
	31,509,540	4,562,792	(172,430)	35,899,902
	150,333,653	41,338,068	(389,241)	191,282,480
				2018
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	46,455,126	-	(1,320,686)	45,134,440
Equities				
Canadian Pooled Funds	23,010,364	11,810,421	-	34,820,785
International Pooled Funds	41,433,566	11,885,464	-	53,319,030
	64,443,930	23,695,885	-	88,139,815
Real Estate & Mortgage				
Real Estate Fund	14,521,175	2,971,422	-	17,492,597
Mortgage Fund	16,382,169	-	(249,639)	16,132,530
	30,903,344	2,971,422	(249,639)	33,625,127
	141,802,400	26,667,307	(1,570,325)	166,899,382

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

The effective yield on the Bonds, Mortgages and Equities portion of the investment portfolio was 2.58% (2018 – 2.95%).

Investment risk management

The Society has adopted policies that establish the guidelines for all investment activities. These guidelines apply to the investment funds controlled by the Fund.

The Society's overall investment philosophy is to maximize the long-term real rate of return subject to an acceptable degree of risk.

The Society's long-term funding requirements and relatively low level of liquidity dictate a portfolio with a mix of fixed income, equities, as well as real estate and mortgages. The Society invests in bonds, equities, real estate and mortgages through pooled funds.

Investment income

	2019 \$	2018 \$
Interest on cash	118,918	174,302
Pooled distributions	7,971,978	6,967,288
Net interfund loan interest expense (note 10)	(241,114)	(415,961)
	<hr/>	<hr/>
Investment income	7,849,782	6,725,629

Fair value changes in investments

	2019 \$	2018 \$
Realized gain on disposal of investments	857,660	799,903
Unrealized gain (loss) on investments measured at fair value	15,803,698	(8,100,672)
	<hr/>	<hr/>
Fair value increase (decrease) in investments	16,661,358	(7,300,769)

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

7 General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Fund's investment portfolio. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2019, principal of \$500,000 (2018 – \$500,000) was repaid.

	2019	2018
	%	%
Weighted average rate of return	2.29	2.83

8 Accounts payable and accrued liabilities

	2019	2018
	\$	\$
Trade payables	1,865,030	1,313,002
Accrued trade expenses	267,835	255,464
Premium taxes payable	9,056	9,116
Income taxes payable	-	5,635
	<u>2,141,921</u>	<u>1,583,217</u>

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

9 Provision for claims and unallocated loss adjustment expenses (ULAE)

The changes in unpaid claims recorded in the consolidated fund statement of financial position are as follows:

	2019 \$	2018 \$
Part A Insurance Coverage		
Provision for claims – Beginning of year	73,309,091	66,372,510
Provision for losses and expenses for claims reported in the current year	19,839,622	21,014,000
Decrease in estimated losses and expenses for losses reported in prior years	(8,176,687)	(4,477,500)
Provision for claims liability	<u>84,972,026</u>	<u>82,909,010</u>
(Subtract) add:		
Payments on claims reported in the current year	(1,746,698)	(1,643,173)
Payments on claims reported in prior years	(9,369,245)	(8,340,323)
Recoveries on claims	1,314,977	298,318
Change in due from members	2,957	85,259
Claim payments – net of recoveries	<u>(9,798,009)</u>	<u>(9,599,919)</u>
Part A Provision for claims – End of year	<u>75,174,017</u>	<u>73,309,091</u>
Part B Insurance Coverage		
Unpaid claims – Beginning of year	593,694	2,079,000
Provision for losses and expenses for claims	(34,599)	(46,000)
	<u>559,095</u>	<u>2,033,000</u>
(Subtract) add:		
Payments on claims	(246,992)	(1,448,034)
Recoveries on claims	7,387	8,728
Claim payments – net of recoveries	<u>(239,605)</u>	<u>(1,439,306)</u>
Part B Provision for claims – End of year	<u>319,490</u>	<u>593,694</u>
Part C Insurance Coverage		
Provision for claims – Beginning of year	437,595	621,655
Provision for losses and expenses for claims reported in the current year	1,267,779	40,500
	<u>1,705,374</u>	<u>662,155</u>
(Subtract) add:		
Payments on claims	(752,378)	(162,500)
Change in due from members	62,558	(62,060)
Part C Provision for claims – End of Year	<u>1,015,554</u>	<u>437,595</u>
Total provision for Parts A, B and C Insurance Coverage	<u><u>76,509,061</u></u>	<u><u>74,340,380</u></u>

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

The determination of the provision for unpaid claims and adjustment expenses requires the estimation of two major variables or quanta, being development of claims and the effect of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in severity of claims from historical trends, the timing of claims payments and future rates of investment return. The estimates are principally based on the Fund's historical experience. Methods of estimation have been used that the Society believes produce reasonable results given current information.

The provision for ULAE is an actuarially determined estimate of the Fund's future operational costs relating to the administration of claims and potential claims reported up to the consolidated fund statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 2.47% (2018 – 2.91%). The Fund determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

A 1% increase in the discount rate will have a favourable impact on the discounted claims liability of \$2.563 million (2018 – \$2.558 million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.750 million (2018 – \$2.747 million).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial estimates are adequate to pay future claims liabilities, the Fund includes a Provision for Adverse Deviations (PFAD) in some assumptions relating to claims development and future investment income. The PFAD is selected based on guidance from the Canadian Institute of Actuaries.

The effects of discounting and the application of PFAD, net of members' share of provision for claims, are as follows (in thousands of dollars):

	2019	2018
	\$	\$
Undiscounted	79,942	78,017
Effect of present value	(5,926)	(7,032)
PFAD	12,910	12,757
	<hr/>	<hr/>
Discounted	86,926	83,742

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Claims development tables (net of members' share of provision for claims)

A review of the historical development of the Fund's insurance estimates provides a measure of the Fund's ability to estimate the ultimate value of claims. The top half of the following tables illustrates how the Fund's estimate of total undiscounted claims costs for each year has changed at successive year-ends. The bottom half of the tables reconciles the cumulative claims to the amount appearing in the consolidated fund statement of financial position.

Part A insurance claims (in thousands of dollars)

Claims year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	13,650	14,560	13,390	15,230	12,690	15,090	16,720	15,720	19,767	18,522	
One year later	12,990	13,550	13,080	15,100	12,390	16,590	15,440	15,791	19,219		
Two years later	12,610	11,570	11,970	17,780	12,240	15,210	15,956	16,005			
Three years later	13,210	10,920	10,690	20,300	11,760	13,153	14,548				
Four years later	13,920	11,100	10,490	20,460	12,256	12,775					
Five years later	15,190	11,810	10,100	18,983	11,862						
Six years later	14,900	12,300	9,571	18,087							
Seven years later	14,420	12,078	8,870								
Eight years later	14,413	11,596									
Nine years later	13,528										
Current estimate of cumulative claims	13,528	11,596	8,870	18,087	11,862	12,775	14,548	16,005	19,219	18,522	145,012
Cumulative payments to date	(12,571)	(9,947)	(7,980)	(16,087)	(7,943)	(7,336)	(8,187)	(4,980)	(3,213)	(1,799)	(80,043)
Undiscounted unpaid liability	957	1,649	890	2,000	3,919	5,439	6,361	11,025	16,006	16,723	64,969
Undiscounted unpaid liability in respect of 2009 and prior years											2,952
Undiscounted unallocated loss adjustment expense reserve											10,709
Total undiscounted unpaid claims liability											78,630
Discounting adjustment (includes Claim PFAD)											6,930
Total discounted unpaid claims liability											<u>85,560</u>

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Part B insurance claims (in thousands of dollars)

Claims year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	23	28	18	53	562	41	274	1,588	135	152	
One year later	19	24	13	82	500	184	134	1764	126		
Two years later	22	23	12	100	421	180	62	1696			
Three years later	26	23	13	115	372	157	65				
Four years later	26	23	8	108	205	120					
Five years later	26	25	8	100	185						
Six years later	27	25	20	100							
Seven years later	26	24	14								
Eight years later	26	24									
Nine years later	26										
Current estimate of cumulative claims	26	24	14	100	185	120	65	1,696	126	152	2,508
Cumulative payments to date	(26)	(23)	-	(99)	(180)	(93)	(65)	(1,604)	(126)	(9)	(2,225)
Undiscounted unpaid liability	-	1	14	1	5	27	-	92	-	143	283
Undiscounted unpaid liability in respect of 2009 and prior years											11
Undiscounted unallocated loss adjustment expense reserve											46
Total undiscounted unpaid claims liability											340
Discounting adjustment (includes Claim PFAD)											29
Total discounted unpaid claims liability											369

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Part C insurance claims (in thousands of dollars)

Claims year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	-	-	-	-	-	-	-	-	65	650	
One year later	-	-	-	-	-	-	-	423	65		
Two years later	-	-	-	-	-	-	-	923			
Three years later	-	-	-	-	-	-	-				
Four years later	-	-	-	-	-	-	-				
Five years later	-	-	-	-	-	-	-				
Six years later	-	-	-	-	-	-	-				
Seven years later	-	-	-	-	-	-	-				
Eight years later	-	-	-	-	-	-	-				
Nine years later	-	-	-	-	-	-	-				
Current estimate of cumulative claims	-	-	-	-	-	-	-	923	65	650	1,638
Cumulative payments to date	-	-	-	-	-	-	-	(429)	(65)	(325)	(819)
Undiscounted unpaid liability	-	-	-	-	-	-	-	494	-	325	819
Undiscounted unpaid liability in respect of 2009 and prior years											-
Undiscounted unallocated loss adjustment expense reserve											154
Total undiscounted unpaid claims liability											973
Discounting adjustment (includes Claim PFAD)											23
Total discounted unpaid claims liability											<u>996</u>

The expected maturity of the unpaid claims provision is analyzed below (undiscounted and gross of reinsurance):

(in thousands of dollars)	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	\$	\$	\$	\$	\$	\$	\$
December 31, 2019	19,652	16,587	12,690	8,936	6,371	15,706	79,942
December 31, 2018	18,554	14,694	12,022	8,716	7,023	17,007	78,016

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Role of the actuary

The actuary is appointed to fulfill reporting requirements pursuant to the Insurance (Captive Company) Act of B.C. With respect to preparation of these consolidated fund financial statements, the actuary is required to carry out a valuation of the Fund's policy liabilities and to provide an opinion regarding their appropriateness at the date of the consolidated fund statement of financial position. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities as well as any other matter specified in any direction that may be made by the regulatory authorities. The policy liabilities consist of a provision for unpaid claims and adjustment expenses. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the insurance policies.

The valuation is based on projections for settlement of reported claims and claim adjustment expenses. It is certain that actual claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

The actuary relies on data and related information prepared by the Fund. The actuary also analyzes the Fund's assets for its ability to support the amount of policy liabilities.

10 Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are administered by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at exchange amounts at the dates of the transactions. Amounts due to and from the General Fund and the Special Compensation Fund are due on demand and have no fixed terms of repayment. The Fund has authorized a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Fund has also authorized a loan facility of up to \$8 million to the Special Compensation Fund which is not expected to be used as the Special Compensation Fund is in the process of being wound up. As of December 31, 2019, no amounts have been drawn on the facilities (2018 – \$nil).

Pursuant to reserve policy, \$1.16 million of the net assets related to trust assurance was transferred to the Lawyers Insurance Fund for Part B coverage during 2019 (2018 – \$1.78 million).

The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2019

Monthly interest on the Fund's net loan position with the General Fund and Special Compensation Fund is paid to the Fund at a rate equal to the stated monthly bond yield to maturity earned on the Fund's investment portfolio. The average bond yield for 2019 was 2.29% (2018 – 2.83%). The Fund's net loan position at December 31, 2019 was \$5.0 million (2018 – \$15.3 million) which includes the General Fund building loan, other operating balances with the General Fund and the Special Compensation Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Fund to finance ongoing operations.

During the year ended December 31, 2019, interest revenue of \$25,780 (2018 – \$45,839) was received on the General Fund building loan, interest of \$264,139 (2018 – \$455,342) was paid on General Fund cash balances held by the Fund, and \$2,755 (2018 – \$6,458) was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$241,114 (2018 – \$415,961).

Other interfund transactions are disclosed elsewhere in these consolidated fund financial statements.

11 Internally restricted net assets

The Benchers have allocated \$17.5m (2018 – \$17.5m) of the net assets to Part B coverage for dishonest appropriation of trust funds or property.

12 Regulatory requirements and capital management

The Captive is required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves under the regulations of the Insurance (Captive Company) Act of B.C. The Captive was in compliance with these regulations throughout the year and as at December 31, 2019.

13 Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2019, expenses of \$54,354 (2018 – \$12,861) were incurred by the Fund with these law firms.

14 Subsequent events

Effective January 1, 2020, Section 30 of the Legal Profession Act was amended to change any reference to "insurance" to "indemnification". New Section 30.1 provides that the Law Society or any subsidiary (except for a captive insurer) that operates such an indemnification program is not an insurer as defined in the Financial Institutions Act or the Insurance Act, nor are they carrying on insurance business in B.C. Effective January 1, 2020, the Lawyers Insurance Fund will now be called the Lawyers Indemnity Fund.