

Law Society

of British Columbia

FINANCIAL
STATEMENTS
2022

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2022 Audited Financial Statements - Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through two separate funds: the General Fund and the Lawyers Indemnity 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 2022 audited financial statements for the two 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 2022, 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 and Consolidated Lawyers Indemnity 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
- Reviewing the reporting from the Law Society's actuary on the provision for settlement of indemnity claims
- Recommending the 2023 practice fees and indemnity assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

General Fund

Overview

Overall, the 2022 results for the General Fund resulted in an operating surplus of \$2.9 million, after the transfer of net assets from the trust assurance program to the Lawyers Indemnity Fund. Revenues were higher than expected, particularly in interest income and practice fees, while partially offset by a decrease in trust administration fees. Operating expenses increased over the prior year primarily due to increases in external counsel costs over 2021 with the increased number and complexity of discipline and professional conduct files.

Revenues

General Fund revenue was \$38.0 million, \$0.7 million (1.9%) higher than 2021 primarily due to higher practice fees due to the growth in the number of lawyers and higher interest income.

Net growth in 2022 in the number of full-time equivalent practicing lawyers was 3.9% resulting in a total of 13,834 full fee-paying equivalent lawyers for the year, compared to 13,317 in 2021, with a resulting increase in practice fee revenue of \$1.3 million.

Throughout 2022, the Bank of Canada increased its overnight policy rate from 0.25% at the beginning of 2022 to 4.25% by December 2022 which resulted in additional interest revenue of \$0.5 million compared to 2021.

Enrollment fees were up \$0.2 million from 2021 in line with a 13% increase in PLTC students.

These increases in revenue were partly offset by the trust administration fees revenue decrease of \$1.2 million as a result of the 35% drop in real estate market activity in the year.

The Lawyers Indemnity Fund contributed \$2.6 million to the General Fund for co-sponsored program costs and for general program and administrative expenses attributable to operations.

Expenses

The 2022 General Fund expenses increased by \$3.3 million (9.8%) to \$36.9 million, compared to \$33.6 million in 2021.

Bencher Governance and Support expenses increased by \$51,000 over 2021 due to an increase in travel and meeting costs with COVID restrictions being lifted.

Communications costs exceeded 2021 by \$186,000 due to general wage increases, staff resource changes and the use of external consultants for web site design.

Information Services costs increased \$239,000 due to increased software maintenance expenses, along with general wage increases and staffing costs.

Education and Practice expenses were higher than 2021 by \$427,000 resulting from an increase in PLTC students from 616 to 686 in 2022, along with general wage increases and staffing costs.

General and administration costs increased \$509,000 over 2021 due to general wage increases, higher recruiting expenses, increased insurance costs, and travel and meetings expenses.

Policy and Legal Services expenses increased \$188,000 over 2021, mainly due to general wage increases and increased staffing resources in privacy and information management functions, partially offset by decreased external litigation costs.

Regulation operating expenses increased \$1.43 million over 2021, primarily due to higher external counsel fees as a result of increased file complexity and the number of files in discipline and professional conduct, combined with staff turnover and vacancies, and general wage increases.

Occupancy costs in 2022 were \$251,000 higher than in 2021 due to higher property taxes, utilities, and building insurance costs.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2022, net assets in the General Fund were \$36.7 million. The net assets include \$4.8 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 \$0.8 million of net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage. After this transfer, at December 31, 2022, the net assets include \$1.9 million of trust assurance net assets. The remaining General Fund net assets are \$30.0 million, of which \$12.2 million is invested in capital assets, mainly the 845 Cambie Street building, and \$17.8 million is working capital.

Lawyers Indemnity Fund

Overview

The Lawyers Indemnity Fund remains in a strong financial position at the end of 2022 despite the market value decreases experienced in the equity and fixed income sectors of the investment portfolio. Revenue from annual assessments was \$0.5 million higher than 2021 due to additional covered members, the provision for claims was higher than 2021, and other operating expenses were as expected.

Revenues

The 2022 indemnity assessment was \$1,800 per full-time lawyer, resulting in total revenue of \$17.6 million, compared to \$17.1 million in 2021.

During 2022, due to the downturn in equity and bond markets, the long-term investment portfolio recorded a -2.2% net loss after fees compared to a benchmark loss of -3.2%. All the increases and decreases 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 2022, the Lawyers Indemnity Fund general operating costs, including the \$0.8 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were \$10.3 million, compared to \$8.3 million in 2021. The increase is mainly due to of the cost of cyber coverage in the indemnity program for a full year in 2022 compared to 2021 when the coverage started mid-year and an increase in investment management fees due to the change in asset mix in the investment portfolio mix to increase infrastructure investments.

The net actuarial provision for settlement of claims for the year was \$18.7 million, an increase of \$12.2 million from 2021. The 2022 claims provision was higher than 2021 partly because the 2021 provision was lower with favourable developments in claims reserves from prior years.

The provision for claims liabilities on the Balance Sheet at the end of 2022 was \$79.4 million, compared to \$72.9 million at the end of 2021.

Net Assets

As of December 31, 2022, LIF net assets were \$126.9 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$109.3 million in unrestricted net assets.

Other Matters

Effective January 1, 2020, Section 30 of the *Legal Profession Act* was amended to convert the “insurance” program to an “indemnification” program. New Section 30.1 provides that the Law Society or any subsidiary (except for a captive insurer) that operates such a 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 became the Lawyers Indemnity Fund. The LSBC Captive Insurance Company Ltd. was wound up on December 31, 2020, and all of its assets and liabilities have been transferred to the Law Society.

As of January 1, 2021, BCLIA was incorporated to issue the indemnity policies to covered lawyers. As a subsidiary of the Society that is exempt from regulation by the BC Financial Services Authority, BCLIA will assume from the Society the rights and obligations of the Captive under all outstanding professional liability policies, except the Business Innocent Covered Party (BIC) policies.

The Law Society of British Columbia – General Fund

Fund Financial Statements
December 31, 2022



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 Fund (the Fund) as at December 31, 2022 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 financial statements comprise:

- the fund statement of financial position as at December 31, 2022;
- 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 significant accounting policies and other explanatory information.

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 Fund 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.

Other information

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

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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 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 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 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 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 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.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Surrey, British Columbia
April 28, 2023

The Law Society of British Columbia – General Fund

Fund Statement of Financial Position

As at December 31, 2022

	2022 \$	2021 \$
Assets		
Current assets		
Cash (note 2)	30,944,861	31,978,828
Unclaimed trust funds (note 2)	2,154,389	2,151,250
Accounts receivable and prepaid expenses (note 3)	2,289,313	2,292,224
Short-term loan receivable (note 5)	535,161	-
Due from Lawyers Indemnity Fund (note 9)	11,733,076	6,170,902
	<u>47,656,800</u>	<u>42,593,204</u>
Non-current assets		
Cambie Street property – net (note 4 (a))	10,105,846	10,916,561
Other property and equipment – net (note 4 (b))	1,386,668	1,540,005
Intangible assets – net (note 4 (c))	731,051	485,806
Long-term loan receivable (note 5)	-	535,161
	<u>59,880,365</u>	<u>56,070,737</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	5,879,060	5,430,922
Liability for unclaimed trust funds (note 2)	2,154,389	2,151,250
Building loan payable (note 8)	-	100,000
Deferred revenue (note 2)	15,128,809	14,606,765
Deposits	58,255	57,405
	<u>23,220,513</u>	<u>22,346,342</u>
Net assets		
Unrestricted (note 7)	<u>36,659,852</u>	<u>33,724,395</u>
	<u>59,880,365</u>	<u>56,070,737</u>

Commitments

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 Fund

Fund Statement of Changes in Net Assets

For the year ended December 31, 2022

	2022 \$	2021 \$
Net assets – Beginning of year	33,724,395	29,997,784
Net excess of revenue over expenses for the year	<u>2,935,457</u>	<u>3,726,611</u>
Net assets – End of year (note 7)	<u>36,659,852</u>	<u>33,724,395</u>

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

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses

For the year ended December 31, 2022

	2022 \$	2021 \$
Revenue		
Practice fees	26,995,959	25,683,871
Trust administration fees	4,050,288	5,238,051
Enrolment fees	2,009,425	1,775,550
E-filing revenue	1,232,147	1,334,626
Fines, penalties and recoveries	689,663	677,540
Application fees	775,518	814,802
Investment income (note 9)	767,725	304,645
Other income	422,507	423,814
Rental revenue	1,053,235	1,026,505
	<hr/> 37,996,467	<hr/> 37,279,404
Expenses		
Bencher governance and support	1,134,893	1,083,536
Communications and publications	758,670	572,853
Information services	2,171,397	1,932,145
Education and practice		
Credentials	822,619	956,736
Licensee services	955,136	841,691
Licensee assistance programs	73,320	60,324
Practice advice	1,037,427	941,962
Practice standards	405,758	422,078
Professional legal training course and education	3,158,818	2,803,117
General and administrative		
Finance	1,429,572	1,313,139
Amortization of other property and equipment	540,823	505,972
General administration	1,743,660	1,556,651
Human resources	792,190	668,282
Records management and library	325,596	280,135
Policy and legal services		
Policy, ethics and tribunal counsel	2,467,904	2,103,565
External litigation and interventions	356,252	549,206
Unauthorized practice	322,700	306,394
Regulation		
Custodianship costs	1,997,009	1,753,460
Discipline	3,408,682	2,851,525
Professional conduct – intake and investigations	6,900,391	6,424,483
Forensic accounting	759,102	692,522
Trust assurance	2,953,641	2,866,796
Occupancy costs, net of tenant recoveries	2,393,067	2,142,549
	<hr/> 36,908,627	<hr/> 33,629,121

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2022

	2022 \$	2021 \$
Brought forward	36,908,627	33,629,121
Costs recovered from Lawyers Indemnity Fund		
Co-sponsored program costs	(1,110,747)	(1,002,286)
Program and administrative costs	(1,506,870)	(1,374,042)
	(2,617,617)	(2,376,328)
	34,291,010	31,252,793
Excess of revenue over expenses before contribution to Lawyers Indemnity Fund	3,705,457	6,026,611
Contribution from Trust Assurance Net Assets to Lawyers Indemnity Fund (note 7)	770,000	2,300,000
Net excess of revenue over expenses for the year	2,935,457	3,726,611

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

The Law Society of British Columbia – General Fund

Fund Statement of Cash Flows

For the year ended December 31, 2022

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Net excess of revenue over expenses for the year	2,935,457	3,726,611
Items not affecting cash		
Amortization of Cambie Street building and tenant improvements	976,791	792,270
Amortization of other property and equipment	387,859	566,046
Amortization of intangible assets	152,964	154,043
Loss on disposal of other property and equipment	167	538
Contributions to Lawyers Indemnity Fund	770,000	2,300,000
	<u>5,223,238</u>	<u>7,539,508</u>
(Increase) decrease in current assets		
Unclaimed trust funds	(3,138)	(6,834)
Accounts receivable and prepaid expenses	2,911	(421,051)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	448,139	(5,354)
Liability for unclaimed trust funds	3,138	6,834
Deferred revenue	522,044	887,808
Deposits	850	1,600
	<u>6,197,182</u>	<u>8,002,511</u>
Financing activities		
Decrease in building loan payable	(100,000)	(500,000)
Interfund transfers	(6,332,174)	544,432
	<u>(6,432,174)</u>	<u>44,432</u>
Investing activities		
Purchase of property and equipment	(400,766)	(783,485)
Purchase of intangible assets	(398,209)	(120,941)
Long-term loan receivable	-	(83,436)
	<u>(798,975)</u>	<u>(987,862)</u>
(Decrease) increase in cash	(1,033,967)	7,059,081
Cash – Beginning of year	31,978,828	24,919,747
Cash – End of year	<u>30,944,861</u>	<u>31,978,828</u>
Supplementary cash flow information		
Interest paid	-	2,184
Interest income received	796,535	329,723

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

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

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 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 Lawyers Indemnity Fund. This includes collecting revenues associated with practice fees, trust administration fees, enrolment 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 licensees to act within the rules of professional conduct for lawyers.

Effective from May 1, 2004, Part B to the B.C. Lawyers' Compulsory Professional Liability Indemnification Policy provides defined indemnity 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. Part B (Trust Protection Coverage) is recorded in the Lawyers Indemnity Fund.

The Society's Lawyers Indemnity Fund is presented separately in consolidated fund financial statements, including the Society's wholly owned BC Lawyers' Indemnity Association (BCLIA). The Lawyers Indemnity Fund underwrites the program by which errors and omissions indemnity is provided to licensees of the Society. The Lawyers Indemnity Fund's consolidated fund financial statements provide further detail on the various indemnity coverages provided.

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 the Lawyers Indemnity Fund. Recoveries are based on amounts derived either on percentage of use, the proportion of the Lawyers Indemnity 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.

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.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

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 and website development. Software and website development are recorded at cost and amortized on a straight-line basis at 10% – 20% per annum for software and at 20% for website development.

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 periodically.

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

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

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.

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 as 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 \$1,420,775 (2021 – \$1,702,515).

4 Property, equipment and intangible assets

a) 845 Cambie Street property

	2022		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	4,189,450	-	4,189,450
Buildings and equipment	17,237,493	12,125,853	5,111,640
Leasehold improvements	7,725,118	6,954,742	770,376
Tenant improvements	826,619	792,239	34,380
	29,978,680	19,872,834	10,105,846
	2021		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	4,189,450	-	4,189,450
Buildings and equipment	17,071,416	11,374,076	5,697,340
Leasehold improvements	7,725,118	6,752,647	972,471
Tenant improvements	826,619	769,319	57,300
	29,812,603	18,896,042	10,916,561

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

b) Other property and equipment

	2022		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Furniture and fixtures	3,565,813	2,606,884	958,929
Computer hardware	1,834,069	1,410,087	423,982
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	5,449,044	4,062,376	1,386,668

	2021		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Furniture and fixtures	3,497,788	2,436,178	1,061,610
Computer hardware	2,001,876	1,527,238	474,638
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	5,548,826	4,008,821	1,540,005

c) Intangible assets

	2022		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Computer software	2,164,491	1,511,968	652,523
Website development	208,892	130,364	78,528
	2,373,383	1,642,332	731,051

	2021		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Computer software	2,380,119	1,894,313	485,806
Website development	110,733	110,733	-
	2,490,852	2,005,046	485,806

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

5 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 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 2022, the Society's total participation in this loan was \$535,161 (2021 – \$535,161). The loan has a five-year term ending February 23, 2023 with an annual interest rate of 4.74%, payable annually. The interest earned in the current year relating to the loan was \$28,810 (2021 – \$25,078). Repayment of the loan is in progress and is expected by mid-April 2023.

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:

	2022	2021
	\$	\$
Advocate	235,472	231,339
Courthouse Libraries BC	2,151,626	2,050,215
Lawyers Assistance Program	605,575	477,390
Pro bono	211,474	198,856
CanLII	280,351	259,759
Federation of Law Societies	210,560	208,202

7 Unrestricted net assets

The General Fund unrestricted net assets include \$4,802,827 (2021 – \$3,966,733), which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$1,866,856 (2021 – \$1,842,249), which has been appropriated for future trust assurance expenses. During the year, \$4,050,288 (2021 – \$5,238,051) in trust administration fee revenue was collected and \$3,254,681 (2021 – \$3,167,836) in trust assurance expenses were incurred.

Pursuant to the reserve policy, \$770,000 of the net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage in 2022 (2021 – \$2,300,000).

The remaining General Fund net assets represent \$12,224,616 (2021 – \$12,842,371) invested in capital assets, and working capital of \$17,764,552 (2021 – \$15,073,041), combining for a total unrestricted net asset amount of \$29,989,168 (2021 – \$27,915,412).

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

	(in 000s)					2022	2021
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets – Beginning of year	12,842	15,073	27,915	1,842	3,967	33,724	29,998
(Deficiency) excess of revenue over expenses before contribution to Lawyers Indemnity Fund	(1,517)	2,692	1,175	795	1,735	3,705	6,026
Contribution to Lawyers Indemnity Fund	-	-	-	(770)	-	(770)	(2,300)
Repayment of building loan payable (note 8)	100	-	100	-	(100)	-	-
Purchase of capital assets	799	-	799	-	(799)	-	-
Net assets – End of year	12,224	17,765	29,989	1,867	4,803	36,659	33,724

8 Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Indemnity Fund to fund the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan was secured by the buildings, had no fixed repayment terms and interest was calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Lawyers Indemnity Fund investment portfolio. Interest paid on the building loan is disclosed in note 9. The outstanding building loan balance as at December 31, 2022 is \$nil (2021 – \$100,000). During 2022, principal of \$100,000 (2021 – \$500,000) was repaid. The loan was paid off in 2022.

	2022 %	2021 %
Weighted average rate of interest	-	1.88

9 Interfund transactions

The operations of the General and Lawyers Indemnity 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 Indemnity Fund are due on demand and have no fixed terms of repayment. The Lawyers Indemnity Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down as at December 31, 2022 (2021 – \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2022

Monthly interest on the Lawyers Indemnity Fund's net loan position with the General Fund is earned at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Indemnity Fund investment portfolio. The average bond yield for 2022 was 3.72% (2021 – 1.88%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Indemnity Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund and the Lawyers Indemnity Fund to finance ongoing operations.

During 2022, interest revenue of \$292,681 was received from General Fund cash balances held by the Lawyers Indemnity Fund.

During 2021, interest of \$2,184 was paid on the building loan and interest revenue of \$190,071 was received from General Fund cash balances held by the Lawyers Indemnity Fund for a net interest income of \$187,887.

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

10 Related parties

The elected Benchers include licensees 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, 2022, expenses of \$27,030 (2021 – \$11,716) recorded at the carrying amount were incurred by the General Fund during the normal course of business with these law firms.

11 Financial instruments

The General 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, accounts receivable and the loan receivable expose the Fund to credit risk. Cash is held at Schedule 1 Canadian chartered banks, which minimizes risk. The risk of accounts receivable uncollectibility is low due to receivables being from many individual licensees rather than a few large accounts.

The maximum exposure to credit risk arising from the above-noted items is \$32,365,636 (2021 – \$33,681,343). 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 Fund will not be able to meet all cash outflow requirements. The Fund maintains sufficient resources and reserves to meet its obligations when due. The Fund monitors its cash requirements on an ongoing basis to ensure that there are sufficient resources for operations as well as fund anticipated capital expenditures.

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

Consolidated Fund Financial Statements
December 31, 2022



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 Indemnity Fund and its subsidiary (together, the Fund) as at December 31, 2022 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, 2022;
- the consolidated fund statement of revenue and expenses for the year then ended;
- the consolidated fund statement of changes in net assets 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 significant accounting policies and other explanatory information.

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.

Other information

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

PricewaterhouseCoopers LLP
Central City Tower, 13450 102 Avenue, Suite 1400, Surrey, British Columbia, Canada V3T 5X3
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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.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Surrey, British Columbia
April 28, 2023

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Financial Position

As at December 31, 2022

	2022 \$	2021 \$
Assets		
Cash (note 2)	3,266,637	836,534
Accounts receivable – net of allowance (note 3)	501,503	338,460
Prepaid expenses	1,087,325	549,393
Short-term investments (note 4)	197,166	516,963
Member deductibles (note 9)	1,499,202	1,513,163
General Fund building loan (note 6)	-	100,000
Investments (note 5)	235,484,516	241,159,753
Long-term receivable (note 7)	133,153	-
	<u>242,169,502</u>	<u>245,014,266</u>
Liabilities		
Accounts payable and accrued liabilities (note 8)	1,379,221	2,151,511
Deferred revenue (note 2)	8,879,893	8,646,759
Due to General Fund (note 10)	11,733,076	6,170,902
Provision for claims (note 9)	79,420,883	72,917,766
Provision for ULAE (note 9)	13,899,000	12,399,000
	<u>115,312,073</u>	<u>102,285,938</u>
Net assets		
Unrestricted net assets	109,357,429	125,228,328
Internally restricted net assets (note 11)	17,500,000	17,500,000
	<u>126,857,429</u>	<u>142,728,328</u>
	<u>242,169,502</u>	<u>245,014,266</u>

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 Indemnity Fund

Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2022

	2022 \$	2021 \$
Revenue		
Annual assessments	17,605,045	17,051,823
Investment income (note 5)	11,692,132	6,609,753
Other income	45,741	85,200
	<u>29,342,918</u>	<u>23,746,776</u>
Indemnity expenses		
Actuary, consultant and investment manager fees	1,910,880	1,119,439
Allocated office rent from General Fund	323,505	323,505
Contribution to program and administrative costs of General Fund	1,506,870	1,374,042
Insurance	1,776,803	1,067,773
Office	460,745	276,846
Provision for settlement of claims (note 9)	18,714,099	6,487,841
Provision for ULAE (note 9)	1,500,000	177,000
Salaries, wages and benefits	3,185,442	3,149,622
	<u>29,378,344</u>	<u>13,976,068</u>
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	1,110,747	1,002,286
	<u>30,489,091</u>	<u>14,978,354</u>
Excess of revenue over expenses before the following	(1,146,173)	8,768,422
Fair value (decrease) increase in investments (note 5)	(15,494,726)	20,525,641
	(16,640,899)	29,294,063
Provision for (recovery of) income taxes	-	(545)
	(16,640,899)	29,294,608
Contribution from Trust Assurance Net Assets in General Fund (note 10)	770,000	2,300,000
Excess of revenue over expenses for the year	<u>(15,870,899)</u>	<u>31,594,608</u>

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2022

			2022	2021
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
Net assets – Beginning of year	125,228,328	17,500,000	142,728,328	111,133,720
Excess of revenue over expenses for the year	(15,870,899)	-	(15,870,899)	31,594,608
Net assets – End of year	<u>109,357,429</u>	<u>17,500,000</u>	<u>126,857,429</u>	<u>142,728,328</u>

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2022

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	(15,870,899)	31,594,608
Items not affecting cash		
Unrealized loss (gain) on investments	21,486,729	(11,509,114)
Realized gain on disposal of investments	(5,992,003)	(9,016,527)
Pooled distributions from investments	(11,935,271)	(6,783,814)
Contribution from the General Fund	(770,000)	(2,300,000)
	<u>(13,081,444)</u>	<u>1,985,153</u>
(Increase) decrease in assets		
Accounts receivable	(163,044)	100,879
Prepaid expenses	(537,932)	(492,959)
Short-term investments	319,796	(1,525)
Corporate shares held	1,003,390	(1,003,390)
Long-term receivable	(133,153)	-
Member deductibles	13,961	(242,659)
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	(772,291)	170,385
Deferred revenue	233,133	275,370
Provision for claims	6,503,118	(3,457,854)
Provision for ULAE	1,500,000	177,000
	<u>(5,114,466)</u>	<u>(2,489,600)</u>
Investing activities		
Decrease in General Fund building loan	100,000	500,000
Purchase of investments	(43,855,753)	(22,812,788)
Proceeds from investments	44,968,148	23,153,421
	<u>1,212,395</u>	<u>840,633</u>
Financing activities		
Interfund transfers (note 10)	6,332,174	(544,368)
	<u>2,430,103</u>	<u>(2,193,335)</u>
Increase (decrease) in cash	<u>2,430,103</u>	<u>(2,193,335)</u>
Cash – Beginning of year	<u>836,534</u>	<u>3,029,869</u>
Cash – End of year	<u>3,266,637</u>	<u>836,534</u>
Supplementary cash flow information		
Interest paid	292,681	185,703
Interest income received	49,542	15,914

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting the 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 Indemnity Fund (the Fund) and the Society's wholly owned subsidiary, BC Lawyers Indemnity Association (BCLIA) that together comprise the Society's indemnification program. Effective January 1, 1990, the Fund underwrites the program by which professional liability indemnity is provided to eligible members of the Society.

The Society's General Fund is presented in separate fund financials.

The Fund is maintained by the Society pursuant to Section 30 of the Legal Profession Act. BCLIA is not subject to regulation by the BC Financial Services Authority (BCFSA).

Part A

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

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

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 the 2022 and 2021 policy years, the Society and BCLIA have obtained stop-loss reinsurance in the amount of \$12 million to cover aggregate payments over \$26 million for Parts A and C of the Policy. This limit is co-indemnified 80/20 with the reinsurer paying 80% of losses over \$26 million to a maximum of \$12 million and the Fund paying 20%.

Part B

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

For the 2022 and 2021 policy years, there is a \$300,000 per claim limit and a \$17.5 million profession-wide annual aggregate limit. There is no deductible payable by the covered lawyer. The Society and BCLIA have obtained insurance in the amount of \$5 million to cover a portion of the annual aggregate limit. This insurance is subject to a \$4 million group deductible (2021 – \$3 million) and is co-insured 80/20 with the insurer paying 80% of losses over \$4 million (2021 – \$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 indemnity coverage for trust shortages suffered by covered lawyers as a result of relying on fraudulent certified cheques. Effective January 1, 2017, Part C was expanded to include coverage for certain other social engineering frauds.

For the 2022 and 2021 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 default 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 BCLIA.

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.

Cash

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

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.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

Short-term investments

Short-term investments consist of pooled money market funds, whose investments have original maturities of less than 90 days. 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, available for sale equities, bond pooled funds, real estate and mortgage funds, and infrastructure 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 revenue on the date of disposal.

Provision for claims

The provision for claims and unallocated loss adjustment expenses (ULAE) represents 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 provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money. To recognize the uncertainty in establishing best estimates, the Fund includes a provision for adverse deviations (PFAD).

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 revenue is recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

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 as 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, the investment in real estate funds, infrastructure funds, and mortgage funds indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$165,805,496 (2021 – \$142,097,295).

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.

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.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

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 that are set and monitored against the Society's SIPP.

As at December 31, 2022, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$23.5 million (2021 – \$24.0 million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. As at December 31, 2022, 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 \$123 million or 107% (2021 – \$140 million, or 137%).

3 Accounts receivable

	2022 \$	2021 \$
Member deductibles	809,736	687,346
Allowance for doubtful accounts	(493,634)	(455,206)
Claim recoveries settlements receivable (note 7)	64,737	-
GST/HST/PST receivable	120,664	106,320
	<u>501,503</u>	<u>338,460</u>

4 Short-term investments

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

	2022 \$	2021 \$
Money market funds	<u>197,166</u>	<u>516,963</u>

5 Investments

	2022 \$	2021 \$
Investments – at fair value	<u>235,484,516</u>	<u>241,159,753</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

	2022			
	Carrying cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	\$	\$	\$	\$
Bonds				
Pooled Funds	29,474,220	-	5,252,723	24,221,497
Equities				
Canadian Pooled Funds	19,179,199	5,374,627	-	24,533,826
International Pooled Funds	26,916,024	23,673,679	-	50,589,703
	46,095,223	29,048,306	-	75,143,529
Real Estate Fund	14,521,175	8,872,341	-	23,393,516
Mortgage Fund	47,361,950	-	1,285,570	46,076,380
Infrastructure	62,802,599	3,846,995	-	66,649,594
	124,685,724	12,719,336	1,285,570	136,119,490
	200,255,167	41,767,642	6,538,293	235,484,516
				2021
	Carrying cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	\$	\$	\$	\$
Bonds				
Pooled Funds	53,079,370	-	2,231,002	50,848,368
Equities				
Canadian Pooled Funds	20,191,344	13,229,357	-	33,420,701
International Pooled Funds	31,371,087	37,473,628	-	68,844,715
Corporate Shares held	1,003,390	-	-	1,003,390
	52,565,821	50,702,985	-	103,268,806
Real Estate Fund	14,521,175	7,298,952	-	21,820,127
Mortgage Fund	42,480,873	198,709	-	42,679,582
Infrastructure	21,796,436	746,434	-	22,542,870
	78,798,484	8,244,095	-	87,042,579
	184,443,675	58,947,080	2,231,002	241,159,753

The effective yield on the bonds, mortgages and equities portion of the investment portfolio was 4.32% (2021 – 2.21%).

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

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 and infrastructure, as well as real estate and mortgages. The Society invests in bonds, equities, infrastructure, real estate and mortgages through pooled funds.

Net investment income

	2022 \$	2021 \$
Interest on cash	49,542	13,729
Pooled distributions	11,935,271	6,783,910
Net interfund loan interest expense (note 10)	(292,681)	(187,886)
	<u>11,692,132</u>	<u>6,609,753</u>

Fair value changes in investments

	2022 \$	2021 \$
Realized gain on disposal of investments	5,992,003	9,016,527
Unrealized gain (loss) on investments measured at fair value	(21,486,729)	11,509,114
	<u>(15,494,726)</u>	<u>20,525,641</u>

6 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. During 2022, principal of \$100,000 (2021 – \$500,000) was repaid and the loan was paid off in 2022.

	2022 %	2021 %
Weighted average rate of return	<u>-</u>	<u>1.88</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

7 Long-term receivable

During the year ended December 31, 2022, current accounts receivable of \$64,737 (2021 - \$nil) and long term receivables of \$133,153 (2021 - \$nil) were recorded for Part A claims recoveries settlements. These claims recoveries are backed by enforceable settlement agreements and have demonstrated consistent collections.

8 Accounts payable and accrued liabilities

	2022 \$	2021 \$
Trade payables	1,209,223	1,555,058
Accrued trade expenses	167,937	596,453
Sales taxes payable	2,061	-
	<hr/> 1,379,221	<hr/> 2,151,511

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2022

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:

	2022 \$	2021 \$
Part A Indemnity Coverage		
Provision for claims – Beginning of year	72,437,605	75,211,258
Provision for losses and expenses for claims reported in the current year	21,212,000	18,571,141
Decrease in estimated losses and expenses for losses reported in prior years	(6,194,000)	(11,806,141)
	<u>87,455,605</u>	<u>81,976,258</u>
Provision for claims liability		
(Subtract) add:		
Payments on claims reported in the current year	(1,131,439)	(965,972)
Payments on claims reported in prior years	(9,121,924)	(9,782,526)
Recoveries on claims	426,650	953,071
Change in due from members	(15,411)	256,774
	<u>(9,842,124)</u>	<u>(9,538,653)</u>
Claim payments – net of recoveries		
Part A Provision for claims – End of year	<u>77,613,481</u>	<u>72,437,605</u>
Part B Indemnity Coverage		
Unpaid claims – Beginning of year	288,857	455,169
Provision for losses and expenses for claims	3,376,169	211,550
	<u>3,665,026</u>	<u>666,719</u>
(Subtract) add:		
Payments on claims	(2,363,557)	(390,757)
Recoveries on claims	35,287	12,895
	<u>(2,328,270)</u>	<u>(377,862)</u>
Claim payments – net of recoveries		
Part B Provision for claims – End of year	<u>1,336,756</u>	<u>288,857</u>
Part C Indemnity Coverage		
Provision for claims – Beginning of year	191,304	709,193
Provision for losses and expenses for claims reported in the current year	319,930	(488,709)
	<u>511,234</u>	<u>220,484</u>
(Subtract) add:		
Payments on claims	(42,038)	(15,065)
Change in due from members	1,450	(14,115)
	<u>(40,588)</u>	<u>(29,180)</u>
Claim payments – net of recoveries		
Part C Provision for claims – End of Year	<u>470,646</u>	<u>191,304</u>
Total provision for Parts A, B and C Indemnity Coverage	<u><u>79,420,883</u></u>	<u><u>72,917,766</u></u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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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 3.58% (2021 – 1.91%). 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 \$2.538 million (2021 – 2.490 million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.798 million (2021 – \$2.675 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 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):

	2022	2021
	\$	\$
Undiscounted	86,866	75,914
Effect of present value	(8,881)	(4,395)
PFAD	13,834	12,285
	<hr/>	<hr/>
	91,819	83,804
	<hr/>	<hr/>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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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 indemnity claims (in thousands of dollars)

Claims year	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	15,230	12,690	15,090	16,720	15,720	19,767	18,522	17,877	16,896	20,338	
One year later	15,100	12,390	16,590	15,440	15,791	19,219	17,580	17,353	18,034		
Two years later	17,780	12,240	15,210	15,956	16,005	18,802	17,062	16,963			
Three years later	20,300	11,760	13,153	14,548	14,807	15,664	15,577				
Four years later	20,460	12,256	12,775	13,875	13,387	16,070					
Five years later	18,983	11,862	10,385	12,761	13,492						
Six years later	18,087	11,062	10,266	11,777							
Seven years later	17,283	10,271	9,777								
Eight years later	17,071	10,079									
Nine years later	17,078										
Current estimate of cumulative claims	17,078	10,079	9,777	11,777	13,492	16,070	15,577	16,963	18,034	20,338	149,185
Cumulative payments to date	(16,473)	(8,847)	(8,137)	(10,453)	(8,848)	(9,978)	(7,344)	(5,336)	(3,411)	(1,224)	(80,051)
Undiscounted unpaid liability	605	1,232	1,640	1,324	4,644	6,092	8,233	11,627	14,623	19,114	69,134
Undiscounted unpaid liability in respect of 2011 and prior years											2,908
Undiscounted unallocated loss adjustment expense reserve											12,846
Total undiscounted unpaid claims liability											84,888
Discounting adjustment (includes claim PFAD)											4,863
Total discounted unpaid claims liability											89,751

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Notes to Consolidated Fund Financial Statements

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Part B indemnity claims (in thousands of dollars)

Claims year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	53	562	41	274	1,588	135	152	93	196	2,680	
One year later	82	500	184	134	1,764	126	51	84	366		
Two years later	100	421	180	62	1,696	178	49	133			
Three years later	115	372	157	65	2,039	166	70				
Four years later	108	205	120	70	2,043	263					
Five years later	100	185	101	65	2,404						
Six years later	100	199	107	80							
Seven years later	100	201	106								
Eight years later	100	240									
Nine years later	100										
Current estimate of cumulative claims	100	240	106	80	2,404	263	70	133	366	2,680	6,442
Cumulative payments to date	(100)	(212)	(93)	(66)	(2,046)	(150)	(55)	(5)	(366)	(2,090)	(5,183)
Undiscounted unpaid liability	-	28	13	14	358	113	15	128	-	590	1,259
Undiscounted unpaid liability in respect of 2011 and prior years											8
Undiscounted unallocated loss adjustment expense reserve											222
Total undiscounted unpaid claims liability											1,489
Discounting adjustment (includes claim PFAD)											81
Total discounted unpaid claims liability											<u>1,570</u>

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Part C indemnity claims (in thousands of dollars)

Claims year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	-	-	-	-	-	65	650	91	56	17	
One year later	-	-	-	-	423	65	723	91	365		
Two years later	-	-	-	-	923	65	692	91			
Three years later	-	-	-	-	923	65	522				
Four years later	-	-	-	-	923	65					
Five years later	-	-	-	-	423						
Six years later	-	-	-	-							
Seven years later	-	-	-	-							
Eight years later	-	-	-	-							
Nine years later	-	-	-	-							
Current estimate of cumulative claims	-	-	-	-	423	65	522	91	365	17	1,483
Cumulative payments to date	-	-	-	-	(423)	(65)	(522)	-	(66)	-	(1,076)
Undiscounted unpaid liability	-	-	-	-	-	-	-	91	299	17	407
Undiscounted unpaid liability in respect of 2010 and prior years											-
Undiscounted unallocated loss adjustment expense reserve											81
Total undiscounted unpaid claims liability											488
Discounting adjustment (includes claim PFAD)											10
Total discounted unpaid claims liability											498

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, 2022	22,334	17,486	13,649	9,508	6,522	17,367	86,866
December 31, 2021	19,634	15,416	11,685	8,027	5,927	15,225	75,914

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Role of the actuary

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 as 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, which 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 indemnity 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 policy liabilities.

10 Interfund transactions

The operations of the Fund and the General 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 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.

Pursuant to reserve policy, \$770,000 of the net assets related to trust assurance was transferred during 2022 (2021 – \$2.3 million).

Monthly interest on the Fund's net loan position with the General 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 2022 was 3.72% (2021 – 1.88%). The Fund's net loan position as at December 31, 2022 was \$11.7 million (2021 – \$6.1 million) which includes the General Fund building loan and other operating balances with the General Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Fund to finance ongoing operations.

During the year ended December 31, 2022, interest revenue of \$nil (2021 – \$2,184) was received on the General Fund building loan, interest of \$292,681 (2021 – \$190,070) was paid on General Fund cash balances held by the Fund.

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

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11 Internally restricted net assets

The Benchers have allocated one annual, profession-wide, policy limit of \$17.5 million (2021 – \$17.5 million) of the net assets to Part B coverage for dishonest appropriation of trust funds or property.

12 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, 2022, expenses of \$185,730 (2021 – \$229,723) were incurred by the Fund with these law firms.

13 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.