AUDITED

FINANCIAL STATEMENTS *of* THE LAW SOCIETY OF BRITISH COLUMBIA

DECEMBER 31, 2008

The Law Society of British Columbia

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This year the Law Society is distributing its audited Financial Statements separately from the Annual Review. Our 2008 Annual Review entitled "Performing in the Public Interest" will be distributed electronically in August. In the future, both the audited Financial Statements and the Annual Review will be distributed concurrently in electronic form.

Management Discussion *and* Analysis

THE LAW SOCIETY OF BRITISH COLUMBIA

Financial Statements for the General Fund, Special Compensation Fund, and Lawyers Insurance Fund
December 31, 2008

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 to assist the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and appropriate accounting and internal controls are maintained. The 2008 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 Canadian Institute of Chartered Accountants.

During 2008, in addition to the general oversight of the Benchers, the Finance Committee, chaired by Bencher Gordon Turriff, QC, and the Audit Committee, chaired by Bencher David Zacks, QC, both 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, the Finance Committee and the Audit Committee included:

- Reviewing periodic financial statements of the General, Special Compensation and Lawyers Insurance Funds
- 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 Committee Report prepared by the Law Society auditors
- Recommending the practice fees and assessments, and reviewing corresponding budgets

General Fund

RESULTS OF OPERATIONS

Overall, the 2008 results for the General Fund were more favourable than expected. Revenues were greater than expected and the cost of operations was lower than expected, leading to an operating surplus of $1.9 million during 2008.

REVENUES

General Fund revenue from all sources increased from $16.9 million in 2007 to $19.5 million in 2008. Practice fee revenue increased from $10.8 million to $13.6 million during 2008, due to the combined effect of an increase in the number of members in the year and an increase in the practice fee. The practice fee increased for two reasons; to fund the regulatory functions as in past years, and beginning January 1, 2008, to fund the costs of the existing custodianship program which was previously funded by the trust administration fee. The number of PLTC students increased by 44, to a record 395 students, boosting PLTC revenue from $900,000 to $1 million. Increased cash levels and focused cash management lead to an increase of $237,000 in interest income during the year. However, trust administration fee (TAF) revenue declined from $3.3 million to $2.6 million during 2008, with a reduction in the number of TAF transactions due to the downturn in economic conditions.

EXPENSES

General Fund expenses in 2008 were $19.6 million, compared to $17.6 million in 2007. The main areas of change were the continued implementation of the Trust Assurance Program, external counsel fees related to an increase in caseloads, market salary adjustments for the overall organization and hiring to meet regulatory demands.

In addition, under Bencher Governance expenses, Pro Bono funding increased due to the Benchers commitment to provide stable Pro Bono funding through the Law Foundation with a 1% allocation of the practice fee. Communications and Information Services costs increased to provide additional communications support to the members and the public. Education and Practice expenses were up due to costs related to PLTC students and severance costs. These costs were offset by efficiencies in member services costs. General and Administrative costs were up with a focus on professional development and recruiting costs. Policy and Legal Services expenses increased due to an on-going major case carried over from previous years. Regulation costs were larger due to the continued implementation of the Trust Assurance Program reflected in part by the completion of over five hundred compliance audits to date in accordance with the planned roll-out of the program. The 845 Cambie Street building net results decreased due to higher property tax and building maintenance costs, offset by interest expense savings.

NET ASSETS

As of December 31, 2008, $6.8 million was invested in property, plant and equipment and working capital was in a deficit position of $1.8 million, leaving net assets of $5.0 million in the General Fund. The working capital position improved during 2008 by $1.6 million due to a net contribution from the operating surplus for the year. The year-end net asset balance is well within the Bencher-prescribed minimum surplus.

Special Compensation Fund

RESULTS OF OPERATIONS

Overall, the Special Compensation Fund was able to fund claims payments and make a substantial reduction in the deficit incurred in previous years to fund the Wirick claims.

REVENUES

The Special Compensation Fund was funded through a $350 assessment to each practising lawyer in 2008, resulting in total revenue of $3.5 million. The assessment was used to pay the claims and related administrative costs of the Special Compensation Fund, and to reduce the deficit.

EXPENSES

Due to the discretionary nature of the Special Compensation Fund, the Law Society does not set a claims reserve. All claim expenses are shown as an expense in the year incurred, net of any recoveries from the insurer or the lawyer against whom the claim is made. During the year, $1.4 million in cost recoveries related to the Wirick case were received, offsetting $625,000 paid in claims and administrative costs.

NET ASSETS

Claims and administrative costs paid in the past five years, the majority of which were attributable to the Wirick claims, were funded by an existing insurance policy, by the Special Compensation Fund assessment and by funds borrowed from the Lawyers Insurance Fund. The amount borrowed created a deficit in the Special Compensation Fund which is being paid down by Special Compensation Fund assessments. In the 2008, the Special Compensation Fund deficit was reduced by $4.2 million, leaving a balance of $3.5 million at December 31, 2008 to be paid down by future assessments.

Lawyers Insurance Fund

RESULTS OF OPERATIONS

Overall, other than the investment losses related to the downturn in economic conditions during 2008, the Lawyers Insurance Fund (LIF) revenues were ahead of, and expenses were comparable to, the 2007 results.

With the adoption of the new accounting standard on Financial Instruments – Section 3855, investments are recorded at fair market value with changes in unrealized gains and losses being included in the statement of changes in net assets until the financial asset is disposed of or becomes other than temporarily impaired. With the significant decline in the investment markets during 2008, the decrease in the investments fair market value was determined to be an 'Other than Temporary Impairment', and the decrease in fair market value was recognized in the statement of revenue and expense.

REVENUES

The Lawyers Insurance Fund assessment was $1,400 per insured member in 2008, resulting in total revenue of $10.3 million, compared to $10.1 million in 2007.

With the downturn in the investment markets during 2008, the total LIF investments asset value (inclusive of cash and cash equivalents) decreased by $15 million to $115.1 million. The long term investment portfolio earned a negative return of 12.5%, compared to a negative benchmark return of 10.9%. Although the LIF investments experienced negative returns, our prescribed asset allocation enabled more favourable returns than the major stock market indices, which declined between 22% and 33%. As this decline in market value was determined to be an 'Other than Temporary Impairment', there was a $9.1 million charge recognized through the statement of revenue and expense.

EXPENSES

The LIF general operating costs (excluding claims and ULAE) for 2008 were $4.664 million, a slight increase over 2007 costs of $4.641 million, reflecting market salary adjustments.

The provision for settlement of claims was $8.8 million, down from $13.4 million in 2007. In 2007, the provision was higher due to reduction in the discount rate used for valuing claims provisions for all prior years' claims. The provision for claims on the balance sheet at the end of 2008 was $58.3 million, compared to $62.1 million in 2007.

NET ASSETS

As of December 31, 2008, the LIF net assets were $34 million, a decrease of $14.3 million mainly due to the decline in the investment markets.

SUBSEQUENT EVENT

Prior to the investment market's decline, the Benchers determined that the Fund's long term investment portfolio would be managed by two investment managers to diversify risk and improve returns. This resulted in the appointment of two investment managers in the first half of 2009, with each investment manager taking on approximately one-half of the long term investment portfolio. As at May 31, 2009, the total long term investment portfolio earned an investment return of 3.4%, compared to a benchmark return of 2.3%.

APRIL 20, 2009

auditors' report

To the Members of The Law Society of British Columbia

We have audited the statement of financial position of **The Law Society of British Columbia–General and Special Compensation Funds** as at December 31, 2008 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2008 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement of Financial Position

	GENERAL FUND $	SPECIAL COMPENSATION FUND $	2008 TOTAL $	2007 TOTAL $
ASSETS				
Current assets				
Cash and cash equivalents	77,240	500	77,740	52,468
Unclaimed trust funds	1,286,299	—	1,286,299	1,149,728
Accounts receivable and prepaid expenses	822,220	—	822,220	1,190,089
B.C. Courthouse Library Fund (note 2)	625,149	—	625,149	517,346
Due from Lawyers Insurance Fund (note 8)	16,156,866	1,771,796	17,928,662	15,147,639
Interfund balances (note 8)	1,407	(1,407)	—	—
	18,969,181	1,770,889	20,740,070	18,057,270
Property, plant and equipment				
Cambie Street property – net (note 3)	12,147,702	—	12,147,702	12,410,059
Other – net (note 3)	1,319,779	—	1,319,779	1,217,101
	32,436,662	1,770,889	34,207,551	31,684,430
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	4,257,503	49,325	4,306,828	5,108,649
Liability for unclaimed trust funds	1,286,299	—	1,286,299	1,149,728
Current portion of building loan payable (note 7)	500,000	—	500,000	500,000
Current portion of claims payable (note 9)	—	1,885,882	1,885,882	1,885,882
Deferred revenue	14,490,002	1,473,450	15,963,452	16,652,385
Deferred capital contributions (notes 2 and 4)	103,145	—	103,145	85,337
B.C. Courthouse Library Grant (note 2)	625,149	—	625,149	517,346
Deposits	15,500	—	15,500	35,500
	21,277,598	3,408,657	24,686,255	25,934,827
Building loan payable (notes 7 and 8)	6,100,000	—	6,100,000	6,600,000
Claims payable (note 9)	—	1,885,882	1,885,882	3,771,764
	27,377,598	5,294,539	32,672,137	36,306,591
Net assets				
Invested in property, plant and equipment - net	6,868,260	—	6,868,260	6,527,939
Unrestricted	(1,809,196)	(3,523,650)	(5,332,846)	(11,150,100)
	5,059,064	(3,523,650)	1,535,414	(4,622,161)
	32,436,662	1,770,889	34,207,551	31,684,430

Claims (note 9)

Approved by

Gordon Turriff, QC
President

David Zacks, QC
Chair of Audit Committee

Statement of Changes in Net Assets

	General Fund				2008	2007
	INVESTED IN PROPERTY, PLANT AND EQUIPMENT	UNRESTRICTED	TOTAL	SPECIAL COMPENSATION FUND – UNRESTRICTED	TOTAL	TOTAL
	$	$	$	$	$	$
NET ASSETS (DEFICIT) – BEGINNING OF YEAR	6,527,939	(3,397,845)	3,130,094	(7,752,255)	(4,622,161)	(10,755,595)
Net excess (deficiency) of revenue over expense for the year	(966,657)	2,895,627	1,928,970	4,228,605	6,157,575	5,017,367
Repayment of associated debt	500,000	(500,000)	—	—	—	—
Purchase of property, plant and equipment	806,978	(806,978)	—	—	—	—
Repayment of contribution to Lawyers Insurance Fund from Trust Administration Fee	—	—	—	—	—	1,116,067
NET ASSETS (DEFICIT) – END OF YEAR (note 6)	6,868,260	(1,809,196)	5,059,064	(3,523,650)	1,535,414	(4,622,161)

Statement of Revenue and Expenses

	GENERAL FUND $	SPECIAL COMPENSATION FUND $	2008 TOTAL $	2007 TOTAL $
REVENUE				
Practice fees	13,631,098	–	13,631,098	10,799,155
Annual assessments	–	3,554,150	3,554,150	4,951,550
Trust administration fees	2,612,887	–	2,612,887	3,302,787
Enrolment fees	1,011,383	–	1,011,383	900,589
Interest and other income	982,997	–	982,997	745,022
E-filing revenue	649,443	–	649,443	575,245
Application fees	368,865	–	368,865	334,125
Fines and penalties	244,282	–	244,282	275,260
	19,500,955	3,554,150	23,055,105	21,883,733
EXPENSES				
Bencher Governance				
Bencher, AGM and other committee meetings	1,298,735	–	1,298,735	1,181,879
Equity and diversity	63,173	–	63,173	72,941
Federation of Law Societies' contribution	151,415	–	151,415	135,808
Communication and Information Services				
Communications and publications	842,100	–	842,100	790,138
Information services	1,004,686	–	1,004,686	915,476
Education and Practice				
Credentials	405,441	–	405,441	404,411
Ethics	98,290	–	98,290	98,309
Member services	461,721	–	461,721	505,946
Membership assistance programs	166,705	–	166,705	180,066
Practice advice	457,211	–	457,211	477,801
Practice standards	426,745	–	426,745	305,538
Professional Legal Training Course and Education	1,924,606	–	1,924,606	1,635,672
General and Administrative				
Accounting	624,730	–	624,730	588,421
Amortization of other property, plant and equipment	486,368	–	486,368	481,599
General office administration	1,338,373	–	1,338,373	1,187,082
Human resources	548,576	–	548,576	436,402
Records management and library	211,174	–	211,174	199,565
Policy and Legal Services				
Policy and legal services	1,556,559	–	1,556,559	1,306,994
Unauthorized practice	178,785	–	178,785	188,160
Regulation				
Audit and investigation	1,420,842	–	1,420,842	1,371,715
Custodianship costs	1,185,207	–	1,185,207	1,157,189
Discipline and complaints	3,442,088	–	3,442,088	3,051,954
Trust assurance	1,361,935	–	1,361,935	942,974
Special Compensation Fund				
Claims and costs (note 9)	–	(1,189,855)	(1,189,855)	827,815
General and administrative costs	–	411,074	411,074	547,016
Loan interest to Lawyers Insurance Fund (note 8)	–	4,326	4,326	(4,638)
	19,655,465	(774,455)	18,881,010	18,986,233
COSTS RECOVERED FROM SPECIAL COMPENSATION AND LAWYERS INSURANCE FUNDS				
Co-sponsored program costs	(610,484)	–	(610,484)	(654,055)
Program and administrative costs	(1,332,915)	100,000	(1,232,915)	(1,195,180)
	17,712,066	(674,455)	17,037,611	17,136,998
EXCESS OF REVENUE OVER EXPENSES BEFORE THE FOLLOWING	1,788,889	4,228,605	6,017,494	4,746,735
845 CAMBIE NET RESULTS (NOTE 5)	140,081	–	140,081	270,632
NET EXCESS OF REVENUE OVER EXPENSE FOR THE YEAR	1,928,970	4,228,605	6,157,575	5,017,367

Statement of Cash Flows

	GENERAL FUND $	SPECIAL COMPENSATION FUND $	2008 TOTAL $	2007 TOTAL $
CASH FLOWS FROM OPERATING ACTIVITIES				
Net excess of revenue over expense for the year	1,928,970	4,228,605	6,157,575	5,017,367
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	477,692	–	477,692	442,078
Amortization of other property, plant and equipment	486,368	–	486,368	481,599
Loss on disposal of capital assets	2,597	–	2,597	1,276
	2,895,627	4,228,605	7,124,232	5,942,320
Decrease (increase) in current assets				
Unclaimed trust funds	(136,571)	–	(136,571)	(248,893)
Accounts receivable and prepaid expenses	304,433	63,436	367,869	(14,292)
B.C. Courthouse Library Fund	(107,803)	–	(107,803)	(109,252)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	267,597	(1,069,418)	(801,821)	135,807
Liability for unclaimed trust funds	136,571	–	136,571	248,893
Deferred revenue	1,148,717	(1,837,650)	(688,933)	1,283,173
Deferred capital contributions	17,808	–	17,808	85,337
B.C. Courthouse Library Grant	107,803	–	107,803	109,252
Deposits	(20,000)	–	(20,000)	6,630
Decrease in claims payable	–	(1,885,882)	(1,885,882)	(1,885,882)
	4,614,182	(500,909)	4,113,273	5,553,093
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in long-term debt – net	(500,000)	–	(500,000)	(500,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant and equipment additions – net	(806,978)	–	(806,978)	(275,240
INTERFUND TRANSFERS	(3,281,857)	500,834	(2,781,023)	(5,693,609)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,347	(75)	25,272	(915,756
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	51,893	575	52,468	968,224
CASH AND CASH EQUIVALENTS – END OF YEAR	77,240	500	77,740	52,468
SUPPLEMENTARY CASH FLOW INFORMATION				
Interest paid	352,870	4,326	357,196	365,560
Interest income	495,544	–	495,544	282,135

notes

TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Description of the Funds

The General Fund comprises the assets, liabilities, net assets, revenue and expense of the operations of The Law Society of British Columbia (the Society) other than those designated to the statutory Special Compensation Fund and the Lawyers Insurance Fund.

The Special Compensation Fund is maintained by the Society pursuant to Section 31 of the Legal Profession Act to reimburse persons who sustain a pecuniary loss as a result of the misappropriation or wrongful conversion by a member of the Society of money or other property entrusted to or received by the member in his or her capacity as a barrister or solicitor. The Special Compensation Fund is financed by members' annual assessments, and claims are recorded net of recoveries from the Special Compensation Fund's insurers when they have been approved for payment by the Special Compensation Fund Committee as delegated by the Benchers and the settlement has been accepted by the claimant. The Legal Profession Act provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

The Society is a not-for-profit organization and the Funds are considered to be non-assessable under current income tax legislation.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

Financial instruments

On January 1, 2007, the Funds adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized directly in net assets. The adoption of Section 3855 has not impacted the financial statements.

New accounting pronouncement

On October 1, 2008, CICA reported that the Accounting Standards Board (AcSB) decided that non-publicly accountable enterprises need not apply CICA Handbook Sections 1535, Capital Disclosures; 3862, Financial Instruments – Disclosures; and 3863, Financial Instruments – Presentation. Accordingly, the Funds elected not to implement these CICA Handbook sections.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable and accounts payable corresponds to their carrying values due to their short-term nature.

The carrying value of the building loan payable approximates its fair value based upon the discount rates applied.

The fair value of claims payable is disclosed in note 9(b).

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 or the percentage of the fund's staff as compared to the Society's total staff costs or a set amount.

Allocated rental revenue

The Cambie Street property is treated as a separate cost centre. Allocated rental revenue represents rent allocated to each of the funds. The corresponding rental expense has not been eliminated in the preparation of these financial statements.

Amortization

Amortization is provided on a straight-line basis as follows:

Buildings	2½% per annum
Computer hardware	20% per annum
Computer software	10 – 20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum

Tenant improvements are amortized over the term of the lease to which they relate. The Society recognizes a full year's amortization expense in the year of acquisition.

B.C. Courthouse Library Fund

The Society administers funds held on behalf of the B.C. Courthouse Library. Such funds are held in trust and the use of the funds is not recorded in the statement of revenue and expense of the General Fund. The Society grants money to the B.C. Courthouse Library through its fees per lawyer assessments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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.

2. SIGNIFICANT ACCOUNTING POLICIES continued

Comparative figures

Certain comparative figures in these statements have been reclassified to conform to the current year's presentation.

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.

Revenue recognition

The Funds follow the deferral method of accounting for annual 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 deferred 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.

Unclaimed trust funds

The General Fund recognizes a liability for unclaimed trust funds on the 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 statement of revenue and expense. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation of British Columbia.

3. PROPERTY, PLANT AND EQUIPMENT

	2008			2007
	COST $	ACCUMULATED AMORTIZATION $	NET $	NET $
845 Cambie Street property				
Land	4,189,450	–	4,189,450	4,189,450
Buildings	11,501,409	4,757,290	6,744,119	6,944,089
Leasehold improvements	4,983,435	3,778,652	1,204,783	1,254,224
Tenant improvements	1,103,252	1,093,902	9,350	22,296
	21,777,546	9,629,844	12,147,702	12,410,059
Other property, plant and equipment				
Furniture and fixtures	2,476,393	1,732,563	743,830	646,714
Computer hardware	896,634	648,156	248,478	269,200
Computer software	1,538,820	1,211,350	327,470	301,186
Law libraries – at nominal value	1	–	1	1
	4,911,848	3,592,069	1,319,779	1,217,101

4. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent externally restricted grants for the purchase of Professional Legal Training Course related capital assets. Unamortized amounts which will be recognized as revenue in future periods are as follows:

	2008	2007
	$	$
Balance – Beginning of year	85,337	—
Received from the Law Foundation of British Columbia	28,446	85,337
	113,783	85,337
Less: Amortization for the year	10,638	—
Balance – End of year	103,145	85,337

5. 845 CAMBIE OPERATING REVENUE – NET

	2008	2007
	$	$
Rental revenue	406,164	388,301
Allocated rental revenue	1,374,426	1,375,886
	1,780,590	1,764,187
Expense		
Amortization	477,692	442,078
Insurance	69,346	66,504
Loan interest expense (note 7)	352,870	365,560
Property management salaries	175,355	145,834
Property taxes	343,275	268,592
Repairs and maintenance	388,902	314,857
Utilities	134,561	130,530
Recovery from tenants	(301,492)	(240,400)
	1,640,509	1,493,555
Net operating revenue	140,081	270,632

6. UNRESTRICTED NET ASSETS

The General Fund unrestricted net assets include $979,126 which has been appropriated for contribution to future Trust Administration Fee related expenses. During the year, $2.6 million (2007 – $3.3 million) in trust administration fee revenue was collected, and $2.7 million (2007 – $3.5 million) in trust administration fee expenses were incurred, consisting of expenses related to trust assurance and audit. Custodianship costs were removed from Trust Administration Fee related expenses as of January 1, 2008.

7. BUILDING LOAN PAYABLE

In 1992, the Benchers authorized the lending of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 835-845 Cambie Street, Vancouver, B.C. 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 Lawyers Insurance Fund investment portfolio. It is the intention of the Fund to repay a minimum of $500,000 of the principal each year. During 2008, principal of $500,000 (2007 – $500,000) was repaid.

	2008	2007
	%	%
Weighted average rate of interest	4.97	4.81

8. INTERFUND TRANSACTIONS

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Transactions between the funds arise from transactions of an operating nature and are recorded at fair values at the dates of the transactions. Surplus funds are invested in the Insurance Fund's investment portfolio.

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 provided 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 Lawyers Insurance Fund has also provided a loan facility of up to $8 million to the Special Compensation Fund.

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is paid to the Lawyers Insurance Fund 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 2008 was 4.97% (2007 – average rate – 4.81%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Insurance Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Lawyers Insurance Fund to finance ongoing operations.

During 2008, interest of $352,870 was paid on the building loan and $4,326 was paid on the Special Compensation Fund loan facility and interest revenue of $394,539 was received from General Fund cash balances held by the Lawyers Insurance Fund for a net interest income of $37,343. During 2007, interest of $365,560 was paid on the building loan and interest revenue of $139,061 was received from General Fund cash balances held by the Lawyers Insurance Fund and $4,638 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest expense of $221,861.

Other interfund transactions are disclosed elsewhere in these financial statements.

9. SPECIAL COMPENSATION FUND CLAIMS

As the Special Compensation Fund is in a deficit, its ability to make further settlements and reduce the deficit is dependent on future member assessments and a loan facility from the Lawyers Insurance Fund (note 8).

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, 2008, there were 31 claims amounting to approximately $1.2 million for which statutory declarations had been received. In addition, there were potential claims amounting to approximately $2.3 million for which no statutory declarations had been received. All claims for which statutory declarations are received will be reviewed by the Special Compensation Fund Committee in due course. These amounts do not include an estimate for claims attributable of which the Society is unaware.

For claims reported prior to May 1, 2004, the insurance bond provides that total claims attributable to the period in excess of $2,500,000 are 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 9(b).

At the December 2003 meeting, the Benchers approved, to be effective May 1, 2004, a Part B amendment to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy that 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. The Part B (Trust Protection Coverage) is recorded in 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. Since then, the Society has continued to investigate the various claims attributed to Mr. Wirick's practice activities. Information continues to be received to assist in the investigation of claims. The Benchers are updated as required.

	2008	2007
Number of open claims as at December 31	8	8
	$	$
Amount claimed	700,000	700,000
Amount reviewed (number of claims – nil; 2007 – 26)	—	700,000
Amount denied due to duplication (number of claims – nil; 2007 – 13)	—	—
Amount adjourned (number of claims – 8; 2007 – 8)	700,000	700,000
Total approved for payment	—	—
Total paid – net of recoveries	400,000	1,500,000

9. SPECIAL COMPENSATION FUND CLAIMS continued

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. The Insurer's coverage for the 2002 bond period is $15,000,000. 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.

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 fair values of these payments are estimated as follows:

	$
2009	1,885,882
2010	1,787,227
Claims payable	3,673,109

10. RELATED PARTIES

The Benchers are 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, 2008, expenses of $138,346 (2007 – $166,227) were incurred during the normal course of business.

DECEMBER 31, 2008

THE LAW SOCIETY OF BRITISH COLUMBIA

CONSOLIDATED FINANCIAL STATEMENTS

LAWYERS INSURANCE FUND

APRIL 20, 2009

auditors' report

To the Members of The Law Society of British Columbia

We have audited the consolidated statement of financial position of **The Law Society of British Columbia – Lawyers Insurance Fund** as at December 31, 2008 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2008 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Statement of Financial Position

	2008	2007
	$	$
ASSETS		
Cash and cash equivalents	20,945,176	17,441,506
Accounts receivable	183,184	155,325
Income taxes receivable	—	5,950
Prepaid expenses	23,650	44,277
Reinsurers' share of provision for claims (note 5)	738,828	1,312,844
Members' share of provision for claims	1,390,167	1,496,395
General Fund building loan (note 4)	6,600,000	7,100,000
Investments (note 3)	94,137,660	112,648,940
	124,018,665	140,205,237
LIABILITIES		
Accounts payable and accrued liabilities	648,968	1,121,127
Deferred revenue	5,283,324	5,022,989
Due to General Fund (note 7)	16,156,866	12,868,170
Due to Special Compensation Fund (note 7)	1,771,796	2,279,469
Provision for claims (note 6)	58,314,918	62,087,190
Provision for ULAE (note 6)	7,881,000	8,518,875
	90,056,872	91,897,820
NET ASSETS		
Unrestricted net assets	16,461,793	30,807,417
Internally restricted net assets (note 8)	17,500,000	17,500,000
	33,961,793	48,307,417
	124,018,665	140,205,237

Subsequent event (note 11)

Approved by

Gordon Turriff, QC
President

David Zacks, QC
Chair of Audit Committee

Consolidated Statement of Changes in Net Assets

	UNRESTRICTED	INTERNALLY RESTRICTED	2008 TOTAL	2007 TOTAL
	$	$	$	$
NET ASSETS – BEGINNING OF YEAR	30,807,417	17,500,000	48,307,417	44,659,384
Adoption of financial instruments accounting standards (note 2)	—	—	—	14,119,178
NET ASSETS – BEGINNING OF YEAR, AS ADJUSTED	30,807,417	17,500,000	48,307,417	58,778,562
Deficiency of revenue over expense for the year	(7,165,315)	—	(7,165,315)	(2,416,209)
Unrealized losses on available-for-sale financial assets arising during the year	(15,941,755)	—	(15,941,755)	(4,882,906)
Realized gain on disposal of investments recognized in the statement of revenue and expense	(340,296)	—	(340,296)	(2,055,963)
Other than temporary impairment of investments recognized in the statement of revenue and expense	9,101,742	—	9,101,742	—
Net change in unrealized gains and losses on available-for-sale financial assets	(7,180,309)	—	(7,180,309)	(6,938,869)
Repayment of contribution from Trust Administration Fee to General Fund	—	—	—	(1,116,067)
NET ASSETS – END OF YEAR	16,461,793	17,500,000	33,961,793	48,307,417

Consolidated Statement of Revenue and Expense

	2008	2007
	$	$
REVENUE		
Annual assessments	10,265,064	10,089,010
Investment (loss) income (note 3)	(4,604,706)	7,122,396
Other income	45,086	26,700
	5,705,444	17,238,106
INSURANCE EXPENSE		
Actuary, consultant and investment broker fees	327,273	317,625
Allocated office rent from General Fund	122,119	122,144
Contribution to program and administrative costs of General Fund	1,235,997	1,198,752
Office	474,076	506,530
Premium taxes	10,552	9,052
Provision for settlement of claims (note 6)	8,843,166	13,423,840
(Recovery of) provision for ULAE (note 6)	(637,875)	1,595,357
Salaries, wages and benefits	1,883,693	1,832,910
	12,259,001	19,006,210
LOSS PREVENTION EXPENSE		
Contribution to co-sponsored program costs of General Fund	610,484	654,055
	12,869,485	19,660,265
DEFICIENCY OF REVENUE OVER EXPENSE BEFORE THE FOLLOWING	(7,164,041)	(2,422,159)
INCOME TAX EXPENSE (RECOVERY)	1,274	(5,950)
DEFICIENCY OF REVENUE OVER EXPENSE FOR THE YEAR	(7,165,315)	(2,416,209)

Consolidated Statement of Cash Flows

	2008	2007
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficiency of revenue over expense for the year	(7,165,315)	(2,416,209)
Items not affecting cash		
Realized gain on disposal of investments	(340,296)	(2,055,963)
Amortization of 750 Cambie Street building	463,112	463,114
Amortization of deferred tenant inducement	43,984	43,989
Other than temporary impairment of investments	9,101,742	—
	2,103,227	(3,965,069)
Decrease (increase) in assets		
Accounts receivable	(28,846)	(138,923)
Accrued interest receivable	987	—
Income taxes receivable	5,950	(1,820)
Prepaid expense	20,627	(16,564)
Reinsurers' share of provision for claims	574,016	3,738,693
Due from members	106,228	(75,572)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(472,159)	277,308
Deferred revenue	260,335	10,879
Provision for claims	(3,772,272)	3,268,899
Provision for ULAE	(637,875)	1,595,357
	(1,839,782)	4,693,188
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(18,886,590)	(14,829,713)
Proceeds of disposal of investments	20,949,019	15,083,649
Decrease in General Fund building loan	500,000	500,000
Increase in 750 Cambie Street asset	—	(24,866)
	2,562,429	729,070
INTERFUND TRANSFERS (NOTES 4 AND 7)	2,781,023	5,693,587
INCREASE IN CASH AND CASH EQUIVALENTS	3,503,670	11,115,845
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	17,441,506	6,325,661
CASH AND CASH EQUIVALENTS – END OF YEAR	20,945,176	17,441,506
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	394,539	143,699
Interest income	370,487	384,185

notes

TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE FUND

Description of the Fund

The Lawyers Insurance Fund (the Fund) is maintained by The Law Society of British Columbia (the Society) pursuant to Section 30 of the Legal Profession Act. The Society is a not-for-profit organization, and only the subsidiary LSBC Captive Insurance Company Ltd. (the Captive) is considered assessable for income tax under current legislation.

At the December 2003 meeting, the Benchers approved, to be effective May 1, 2004, a Part B amendment to the B.C. Lawyers' Compulsory Professional Liability Insurance Policy that provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity of barrister and solicitor and in relation to the provision of professional services.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 financial statements and revenues and expenses for the period reported.

The determination of the provisions for claims and unallocated loss adjustment expenses and the reinsurers' share of the provision for claims involves significant estimation. Actual results could differ from those estimates and the differences could be material.

Financial instruments

On January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement and the amendments to CICA Handbook sections and accounting guidelines resulting from the issuance of these sections. Under the new standards, all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in the statement of revenue and expense. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized in net assets.

New accounting pronouncement

On October 1, 2008, CICA reported that the Accounting Standards Board (AcSB) decided that non-publicly accountable enterprises need not apply CICA Handbook Sections 1535, Capital Disclosures; 3862, Financial Instruments – Disclosures; and 3863, Financial Instruments – Presentation. Accordingly, the Fund elected not to implement these CICA Handbook sections.

Basis of consolidation

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

Deferred tenant inducements

In 2006, the Fund provided two of its tenants in the 750 Cambie Street building with free gross rent of $408,706 at the start of the lease. This free gross rent is amortized over the term of the lease.

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 percentage of Fund's staff as compared to the Society's total staff cost.

Amortization

Amortization is provided on a straight-line basis as follows:

Building	2½% per annum
Base building – improvements	2½% per annum
Tenant improvements	over lease period
Deferred tenant inducements	over lease period

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable and accounts payable corresponds to their carrying value due to their short-term nature.

Investments

The Fund has designated all of its bond and equity investments as available-for-sale investments and reports them at fair value. Changes in the fair value of available-for-sale investments are reported within the statement of changes in net assets, until the financial asset is disposed of or becomes other than temporarily impaired at which time the gain or loss is recognized in the statement of revenue and expense. All transaction costs are included in the determination of excess of revenue over expense for the year.

The fair value of investments is market value. The market value of publicly traded investments is based on closing bid prices.

Investment income

Investment income is 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 represents an estimate for all costs of investigating and settling claims incurred prior to the balance sheet date. 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.

Reinsurance

The Fund reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policy holders, and on a net basis on the statement of revenue and expense to indicate the results of its retention of assessments retained.

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 deferred 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.

2. CHANGE IN ACCOUNTING POLICY

New financial instruments standards

The Fund adopted the provisions of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, on January 1, 2007 which addresses the classification, recognition and measurement of financial instruments in the financial statements. This section was adopted retroactively without restatement of comparative amounts. Net assets at January 1, 2007 were increased by $14.1 million.

3. INVESTMENTS

	2008	2007
	$	$
Investments – at fair value	80,631,286	98,635,470
750 Cambie Street Building	13,506,374	14,013,470
	94,137,660	112,648,940

2008

	CARRYING COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	$	$	$	$
Bonds				
Pooled Funds	38,297,629	—	—	38,297,629
Equity				
Canadian Pooled Funds	15,420,337	—	—	15,420,337
U.S. Pooled Funds	14,764,234	—	—	14,764,234
Non-North America Pooled Funds	12,149,086	—	—	12,149,086
	42,333,657	—	—	42,333,657
	80,631,286	—	—	80,631,286

The effective yield on the investment portfolio is 2.42% (2007 – 2.40%).

2007

	CARRYING COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	$	$	$	$
Bonds				
Pooled Funds	49,921,316	—	(29,026)	49,892,290
Equity				
Canadian Pooled Funds	11,263,110	6,205,585	—	17,468,695
U.S. Pooled Funds	16,596,642	—	(828,623)	15,768,019
Non-North America Pooled Funds	13,674,093	1,832,373	—	15,506,466
	41,533,845	8,037,958	(828,623)	48,743,180
	91,455,161	8,037,958	(857,649)	98,635,470

Management has reviewed currently available information regarding investments whose estimated fair value is less than the carrying value, and concluded that there is an other than temporary impairment of value which has been recognized in the statement of revenue and expenses.

Investment risk management

The Society has adopted investment guidelines which establish the guidelines for all investment activities. These guidelines apply to the investment funds owned and controlled by the Society.

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 moderate portfolio with a mix of fixed income and equity securities. The Society invests in bonds and equities through pooled funds.

Credit risk

Credit risk on financial instruments arises from the possibility that a counterparty to an instrument fails to meet its obligations. The investment guidelines mitigate credit risk by ensuring the investments in the bond pooled funds have an adequate minimum credit rating and well-diversified portfolios.

Investment income

	2008	2007
	$	$
Cash and treasury bills	13,291	18,625
Pooled distribution income	3,944,672	4,411,004
Net interfund loan interest (expense) income (note 7)	(37,343)	221,860
Realized gain on disposal of investments	340,296	2,055,963
Building income – 750 Cambie Street	236,120	414,944
Other than temporary impairment of investments	(9,101,742)	—
Net investment income	(4,604,706)	7,122,396

750 Cambie Street Building

In 2004, a building at 750 Cambie Street was purchased as an investment for the Fund.

	2008			2007
	COST	ACCUMULATED AMORTIZATION	NET	NET
	$	$	$	$
Land	4,299,850	—	4,299,850	4,299,850
Building	4,971,376	562,692	4,408,684	4,534,647
Base building improvements	3,219,651	323,723	2,895,928	2,978,658
Tenant improvements	2,388,412	761,406	1,627,006	1,881,425
Deferred tenant inducements	408,705	133,799	274,906	318,890
	15,287,994	1,781,620	13,506,374	14,013,470

4. 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 835-845 Cambie Street, Vancouver, B.C. The loan is secured by the building, 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 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 2008, principal of $500,000 (2007 – $500,000) was repaid.

	2008	2007
	%	%
Weighted average rate of return	4.97	4.81

5. ERRORS AND OMISSIONS INSURANCE CLAIMS

Effective January 1, 1990, the Fund began underwriting the program by which errors and omissions insurance is provided to members of the Society. The Society's members have current coverage as follows:

	2008		
	$		$
Deductible – member	5,000	or	10,000
Deductible – the Fund	995,000	or	990,000
Total coverage per error or related errors			1,000,000
Annual aggregate per member			2,000,000

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

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. The Captive has not entered into reinsurance contracts for claims reported since January 1, 1997. All losses on claims since 1997 are fully reimbursed, as a deductible, by the Society under agreement.

Effective May 1, 2004, the Captive's B.C. Lawyers' Compulsory Professional Liability Insurance Policy was amended to include Part B defalcation coverage. For the 2008 policy period, there is a $300,000 per claim limit and a $17,500,000 profession-wide annual aggregate limit. The Fund has obtained insurance in the amount of $5,000,000 to cover a portion of the annual aggregate limit. This insurance is subject to a $3,000,000 deductible and is co-insured 30/70.

6. PROVISION FOR CLAIMS AND UNALLOCATED LOSS ADJUSTMENT EXPENSES (ULAE)

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

	2008	2007
	$	$
Part A Insurance Coverage		
Provision for claims – Beginning of year	61,504,190	58,459,291
Provision for losses and expenses for claims occurring in the current year	13,857,000	13,694,000
Decrease in estimated losses and expenses for losses occurring in prior years	(4,872,000)	(557,782)
Provision for claims liability	70,489,190	71,595,509
Less:		
Payments on claims incurred in the current year	(1,136,864)	(874,589)
Payments on claims incurred in prior years	(11,398,584)	(5,718,162)
Recoveries on claims	604,669	192,432
Change in reinsurers’ share of recovery of claims	(541,000)	(3,754,000)
Change in due from members	(94,000)	63,000
Claim payments – net of recoveries	(12,565,779)	(10,091,319)
Provision for claims – End of year	57,923,411	61,504,190
Part B Insurance Coverage	391,507	583,000
Total provision for Part A and B Insurance Coverage	58,314,918	62,087,190

The determination of the provision for unpaid claims, and adjustment expenses and the related reinsurers’ share requires the estimation of three major variables or quanta, being development of claims, reinsurance recoveries and the effects of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses and related reinsurers’ share is an estimate subject to variability, and the variability, as with any insurance company, 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 or frequency of claims from historical trends, the timing of claims payments, the recoverability of reinsurance, 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 unallocated loss adjustment expenses (ULAE) is an actuarially determined estimate of the Fund’s future costs relating to the administration of claims incurred up to the statement of financial position date.

6. PROVISION FOR CLAIMS AND UNALLOCATED LOSS ADJUSTMENT EXPENSES (ULAE) continued

The Fund discounts its best estimate of claims provisions at a rate of interest of 4.3% (2007 – 4.5%). 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.

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are adequate to pay future benefits, the Fund includes Provisions for Adverse Deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PFADs selected are in the mid range of those recommended by the Canadian Institute of Actuaries.

Part B (Trust Protection Coverage)

Trust protection coverage was introduced on May 1, 2004. Part B provides a $300,000 per claim limit and a profession-wide annual aggregate of $17.5 million, inclusive of both defence costs and settlements. The Fund purchased insurance for Part B losses. The policy provides a limit of $5 million subject to a self-insured retention of $3 million, and co-insurance of 30%. The actuarial provision as at December 31, 2008 for unpaid claims is $391,507 (2007 – $583,000). At of December 31, 2008, there were 46 reports of claims and potential claims under Part B. This compares with 62 reports of claims and potential claims under Part B as of December 31, 2007.

7. INTERFUND TRANSACTIONS

The operations of the Fund, the General Fund and the Special Compensation Fund are controlled by the management of the Society. Transactions between the Funds arise from transactions of an operating nature and are recorded at fair values 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 provided 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 provided a loan facility of up to $8 million to the Special Compensation Fund.

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 investment portfolio. The average bond yield for 2008 was 4.97% (2007 average rate - 4.81%). The Fund’s net loan position includes the General Fund building loan, other operating balances with the General Fund and the loan with the Special Compensation 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 2008, interest revenue of $352,870 was received on the General Fund building loan and $4,326 was received on the Special Compensation Fund loan facility and interest of $394,539 was paid on General Fund cash balances held by the Fund for a net interest expense of $37,343. During 2007, interest revenue of $365,560 was received on the General Fund building loan and interest of $139,061 was paid on General Fund cash balances held by the Fund and $4,638 was paid on Special Compensation Fund cash balances held by the Fund for a net interest revenue of $221,861.

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

8. INTERNALLY RESTRICTED NET ASSETS

The Benchers have allocated $17,500,000 (2007 – $17,500,000) of the net assets to the Part B defalcation coverage.

9. REGULATORY REQUIREMENTS

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 as at December 31, 2008.

10. RELATED PARTIES

The Benchers are 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, 2008, expenses of $81,874 (2007 – $77,958) were incurred during the normal course of business.

11. SUBSEQUENT EVENT

During 2008, the Benchers determined that the Fund's long term investment portfolio would be managed by two new investment managers to diversify risk and improve returns. During March 2009, approximately one-half of the long term investment portfolio was transferred to a new investment manager, with a net loss of approximately $1.5 million on the transfer. It is expected that the remaining half of the long term investment portfolio will be transferred to a second new investment manager during April/May 2009.

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