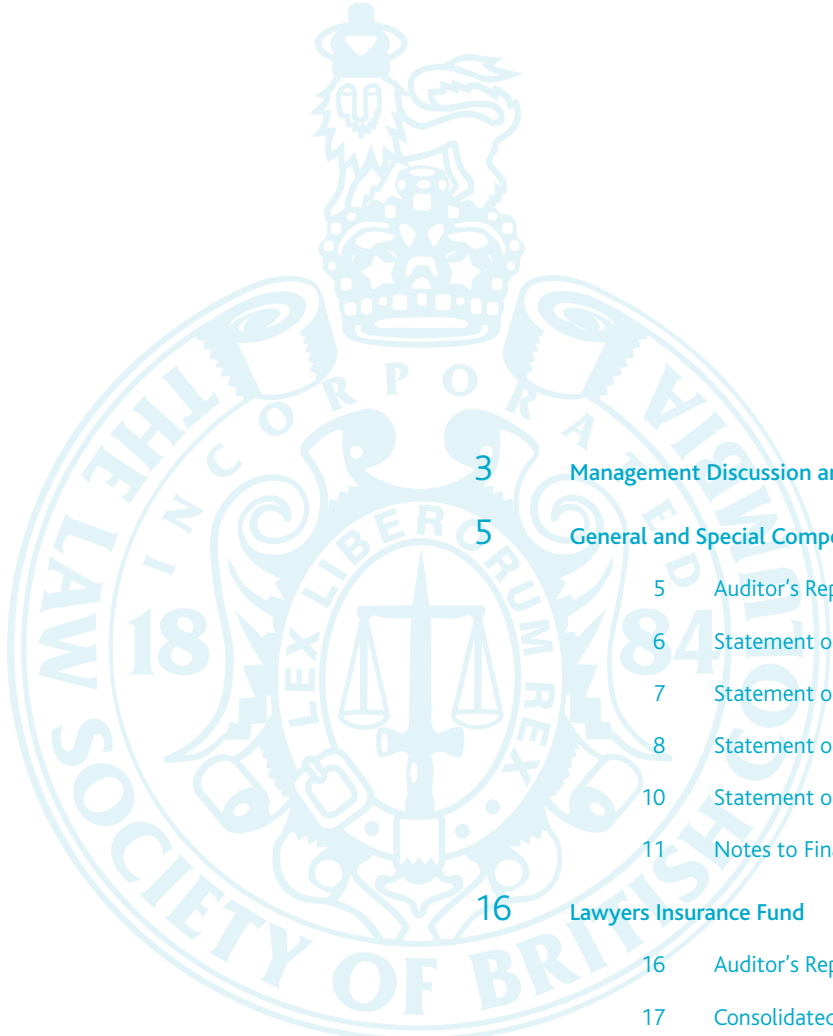


THE LAW SOCIETY OF BRITISH COLUMBIA

Financial Statements • December 31, 2010





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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 (LIF). 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 2010 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 2010, in addition to the general oversight by the Benchers, the Finance Committee and the 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, 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 2011 practice fees and assessments, and reviewing corresponding budgets

General Fund

Summary of Financial Performance

Overall, in 2010 the General Fund had an operating surplus of \$1,117,058, ahead of budget due to higher than expected revenues in several areas and lower than budgeted staffing costs.

Revenues

General Fund revenue increased overall by \$117,000 to \$20.5 million in 2010. With the number of practising lawyers increasing by just over 2% from 2009, the practice fee revenue increased by \$212,000 to \$14.8 million. PLTC enrolment fees were as expected with approximately 400 PLTC students during the year. Fines and penalties relating to Continuing Professional Development resulted in \$68,000 of additional revenue. Application fees increased \$64,000 due to an increase in the number of members transferring to BC from other locations, particularly Alberta and Ontario. Offsetting these increases was a decline of \$104,000 in interest revenue due to the lower prevailing market interest rates and a slight decline in trust administration fees to \$2.37 million for the year. E-filing revenue was \$607,000 for the year, a decrease of \$40,000 from 2009 due to a reduced transaction fee.

Net operating income from the Law Society building at 845 Cambie Street decreased by \$25,000 to \$226,000, due to increased property taxes and maintenance costs, offset by decreased building loan interest expense.

Expenses

General Fund expenses in 2010 were, \$21.6 million compared to \$22.1 million in 2009 due to a number of expense items in 2009 which were non-recurring in 2010.

Under the Benchers Governance expense category, expenses decreased due to savings resulting from the electronic distribution of the annual report and reduced meeting expenses. These savings were partially offset by the Benchers approved contribution to the Public Commission on Legal Aid.

Communications costs increased in 2010, as a significant number of changes to the Member's Manuals resulting in an increase in printing costs.

Education and Practice expenses increased due to additional staff support for the Continuing Professional Development program as well as market based salary increases.

General and Administrative costs increased due to market based salary increases, and the implementation of a Core Process Review of the Law Society operations. This review resulted in a number of recommendations which are being implemented over the next few years.

Policy and Legal Services expenses decreased with a reduction in external litigation costs, partially offset by an additional policy lawyer and market based salary increases. Regulation costs decreased due to a number of factors. The Audit and Investigations departments incurred temporary salary savings with a number of staff positions vacant during the year. Custodianships generated savings in staff salaries, external custodianship counsel fees and lower storage costs. Trust administration costs increased due to an increase in the number of compliance audits during the year, particularly outside of the lower mainland and market based salary increases.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2010, net assets in the General fund were \$6.7 million, which includes \$1.2 million allocated for planned capital expenditures.

Special Compensation Fund

Summary of Financial Performance

The Special Compensation Fund had a minimal amount of activity during the 2010 year.

Revenues

The Special Compensation Fund was funded through a \$50 assessment from each practising lawyer in 2010, resulting in total revenue of \$526,000. The assessment was used to pay claims and related administrative costs of the Special Compensation Fund.

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, claims and administrative costs of \$142,000 were incurred, offset by \$49,000 in cost recoveries and \$33,000 in interest income.

Net Assets

At the end of 2010, the Special Compensation Fund held a net asset balance of \$830,000.

As at December 31, 2010, there were 10 claims for a total of \$714,000 for which statutory declarations have been received, that will be reviewed by the Special Compensation Fund committee in due course.

Lawyers Insurance Fund

Summary of Financial Performance

During 2010, the net assets of the Lawyers Insurance Fund increased by \$2.6 million to \$45.4 million.

Revenues

The LIF assessment was \$1,600 per insured member in 2010, resulting in total revenue of \$12.1 million, compared to \$10.4 million in 2009.

During 2010, the long term investment portfolio earned a return of 8.0%, compared to a benchmark return of 8.7%. In the year, the value of the investment portfolio increased by \$5.1 million, which has been recognized through the statement of changes in net assets and reflected on the balance sheet.

Expenses

The LIF general operating costs (excluding claims payments and ULAE) for 2010 were \$4.5 million, compared to \$4.4 million in 2009. This increase reflects market-based salary increases and an increased contribution to the program and administrative costs of the General Fund.

The 2010 actuarial provision for settlement of claims was \$12.4 million, an increase of \$3.6 million over 2009. The provision for claims on the balance sheet at the end of 2010 was \$57.6 million, compared to \$57.4 million in 2009.

Net Assets

As of December 31, 2010, the LIF net assets were \$45.4 million, an increase of \$2.6 million mainly due to the increase in market value of the investment portfolio during the year.



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May 17, 2011

Independent Auditor's Report

To the Members of The Law Society of British Columbia

We have audited the accompanying financial statements of The Law Society of British Columbia - General and Special Compensation Funds, which comprise the statement of financial position as at December 31, 2010 and the statements of changes in net assets, revenue and expenses and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia - General and Special Compensation Funds as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

THE LAW SOCIETY OF BRITISH COLUMBIA – GENERAL AND SPECIAL COMPENSATION FUNDS

Statement of Financial Position

As at December 31, 2010

	2010		2009
	General Fund \$	Special Compensation Fund \$	Total \$
Assets			
Current assets			
Cash	177,371	500	177,871
Unclaimed trust funds (note 2)	1,681,796	-	1,681,796
Accounts receivable and prepaid expenses (note 3)	1,242,948	-	1,242,948
B.C. Courthouse Library Fund (note 2)	635,094	-	635,094
Due from Lawyers Insurance Fund (notes 5 and 9)	17,577,601	894,948	18,472,549
	21,314,810	895,448	22,210,258
Property, equipment and intangible assets - net (note 4)			
Cambie Street property	12,002,361	-	12,002,361
Other property and equipment	1,035,279	-	1,035,279
Intangible assets	336,950	-	336,950
	34,689,400	895,448	35,584,848
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,965,201	13,747	3,978,948
Liability for unclaimed trust funds (note 2)	1,681,796	-	1,681,796
Current portion of building loan payable (note 8)	500,000	-	500,000
Claims payable (note 10)	-	-	-
Deferred revenue (notes 2 and 5)	16,014,436	51,346	16,065,782
Deferred capital contributions (notes 2 and 6)	81,129	-	81,129
B.C. Courthouse Library Grant (note 2)	635,094	-	635,094
Deposits	19,700	-	19,700
	22,897,356	65,093	22,962,449
Building loan payable (notes 8 and 9)	5,100,000	-	5,100,000
	27,997,356	65,093	28,062,449
Net assets			
Unrestricted	6,692,044	830,355	7,522,399
	34,689,400	895,448	35,584,848

Approved by



President



Chair of Audit Committee

THE LAW SOCIETY OF BRITISH COLUMBIA – GENERAL AND SPECIAL COMPENSATION FUNDS

Statement of Changes in Net Assets For the year ended December 31, 2010

	2010		2009
	General Fund - Unrestricted \$	Special Compensation Fund - Unrestricted \$	Total \$
Net assets - Beginning of year	5,574,986	364,251	5,939,237
Net excess of revenue over expenses for the year	1,117,058	466,104	1,583,162
Net assets - End of year (note 7)	6,692,044	830,355	7,522,399

THE LAW SOCIETY OF BRITISH COLUMBIA – GENERAL AND SPECIAL COMPENSATION FUNDS

Statement of Revenue and Expenses For the year ended December 31, 2010

	2010		2009
	General Fund \$	Special Compensation Fund \$	Total \$
Revenue			
Practice fees	14,792,133	-	14,792,133
Annual assessments	-	525,651	525,651
Trust administration fees	2,364,862	-	2,364,862
Enrolment fees	1,010,802	-	1,010,802
Interest and other income (note 9)	844,237	-	844,237
E-filing revenue	606,931	-	606,931
Fines and penalties	424,287	-	424,287
Application fees	426,005	-	426,005
	20,469,257	525,651	20,994,908
Expenses			
Benchers Governance			
Bencher, AGM and other committees	1,032,908	-	1,032,908
Federation of Law Societies' contribution	209,167	-	209,167
CanLII's contribution	316,714	-	316,714
Pro Bono contribution	139,993	-	139,993
Communication and Information Services			
Communications and publications	1,043,320	-	1,043,320
Information services	1,097,960	-	1,097,960
Education and Practice			
Credentials	405,157	-	405,157
Ethics	102,553	-	102,553
Member services	621,645	-	621,645
Membership assistance programs	153,038	-	153,038
Practice advice	473,355	-	473,355
Practice standards	549,615	-	549,615
Professional Legal Training Course and Education	1,767,082	-	1,767,082
General and Administrative			
Accounting	706,513	-	706,513
Amortization of other property and equipment	474,768	-	474,768
General administration	1,557,229	-	1,557,229
Human resources	682,492	-	682,492
Records management and library	244,298	-	244,298
Policy and Legal Services			
Policy and tribunal counsel	1,310,893	-	1,310,893
External litigation and interventions	272,743	-	272,743
Unauthorized practice	91,208	-	91,208
Regulation			
Audit and investigation	1,483,553	-	1,483,553
Custodianship costs	1,296,781	-	1,296,781
Discipline and professional conduct	3,695,375	-	3,695,375
Trust administration	1,894,716	-	1,894,716
Carried forward	21,623,076	-	21,623,076
			22,111,726

THE LAW SOCIETY OF BRITISH COLUMBIA – GENERAL AND SPECIAL COMPENSATION FUNDS

Statement of Revenue and Expenses ...continued
For the year ended December 31, 2010

	2010		2009
	General Fund \$	Special Compensation Fund \$	Total \$
Brought forward	21,623,076	-	21,623,076
Special Compensation Fund			
Claims and costs (note 10)	-	(48,974)	(48,974)
General and administrative costs	-	141,647	141,647
Loan interest income from Lawyers Insurance Fund (note 9)	-	(33,126)	(33,126)
	21,623,076	59,547	21,682,623
Costs recovered from Special Compensation and Lawyers Insurance Funds			
Co-sponsored program costs	(625,768)	-	(625,768)
Program and administrative costs	(1,418,734)	-	(1,418,734)
	19,578,574	59,547	19,638,121
Excess of revenue over expenses before the following	890,683	466,104	1,356,787
845 Cambie net results			
Rental revenue	478,807	-	478,807
Allocated rental revenue (note 2)	1,366,208	-	1,366,208
	1,845,015	-	1,845,015
Expenses			
Amortization	489,164	-	489,164
Insurance	78,322	-	78,322
Loan interest expense (note 8)	181,674	-	181,674
Property management salaries	226,793	-	226,793
Property taxes	409,713	-	409,713
Repair and maintenance	464,453	-	464,453
Utilities	132,403	-	132,403
Recovery from tenants	(363,882)	-	(363,882)
	1,618,640	-	1,618,640
Net operating revenue	226,375	-	226,375
Net excess of revenue over expenses for the year	1,117,058	466,104	1,583,162

Statement of Cash Flows

For the year ended December 31, 2010

	2010		2009	
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Cash flows from operating activities				
Net excess of revenue over expenses for the year	1,117,058	466,104	1,583,162	4,403,823
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	489,164	-	489,164	454,569
Amortization of other property and equipment	349,738	-	349,738	335,396
Amortization of intangible assets	125,030	-	125,030	150,624
Amortization of deferred capital contributions	(11,379)	-	(11,379)	(10,637)
Loss on disposal of capital assets	43,324	-	43,324	-
	2,112,935	466,104	2,579,039	5,333,775
Decrease (increase) in current assets				
Unclaimed trust funds	(242,223)	-	(242,223)	(153,274)
Accounts receivable and prepaid expenses	(186,864)	-	(186,864)	(233,864)
B.C. Courthouse Library Fund	88,573	-	88,573	(98,518)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	(316,733)	6,047	(310,686)	(17,194)
Liability for unclaimed trust funds	242,223	-	242,223	153,274
Deferred revenue	1,326,251	(447,241)	879,010	(776,680)
B.C. Courthouse Library Grant	(88,573)	-	(88,573)	98,518
Deposits	4,700	-	4,700	(500)
Decrease in claims payable	-	(1,885,882)	(1,885,882)	(1,885,882)
	2,940,289	(1,860,972)	1,079,317	2,419,655
Cash flows from financing activities				
Decrease in long-term debt	(500,000)	-	(500,000)	(500,000)
Cash flows from investing activities				
Property, plant and equipment additions - net	(1,057,000)	-	(1,057,000)	(797,954)
Interfund transfers	(1,208,498)	1,860,972	652,474	(1,196,361)
Increase (decrease) in cash	174,791	-	174,791	(74,660)
Cash - Beginning of year	2,580	500	3,080	77,740
Cash - End of year	177,371	500	177,871	3,080
Supplementary cash flow information				
Interest paid	181,674	-	181,674	255,350
Interest income received	315,036	33,126	348,162	423,841

1. Nature of operations

The General Fund comprises the assets, liabilities, net assets, revenue and expenses 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 (including its wholly owned subsidiary, LSBC Captive Insurance Company Ltd.).

The Special Compensation Fund is maintained by the Society pursuant to Section 31 of the Legal Profession Act. 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.

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

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

Separate financial statements have been prepared for the Lawyers Insurance Fund, including LSBC Captive Insurance Company Ltd.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund from both the Lawyers Insurance and Special Compensation Funds. Recoveries are based on amounts derived either on percentage of use, the proportion of the Fund's staff 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 market rent allocated to each of the funds. The corresponding rental expense is included within the relevant functions and therefore has not been eliminated in the preparation of these financial statements.

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 expenses 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.

Deferred capital contributions

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

Fair value of financial instruments

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

The carrying values of the building loan payable and other balances with related parties approximates fair values based upon the interest rate applied.

Financial instruments

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.

Intangible assets

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

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	2-1/2% per annum
Computer hardware	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.

Revenue recognition

The Society follows 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 recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

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

Unclaimed trust funds

The General Fund recognizes a corresponding 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 expenses. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation of British Columbia.

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.

3. Accounts receivable

Accounts receivable are presented net of the allowance for doubtful accounts of \$661,115 (2009 - \$660,608).

4. Property, equipment and intangible assets**a) 845 Cambie Street property**

	2010		2009	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,189,450	-	4,189,450	4,189,450
Buildings	12,065,416	5,377,024	6,688,392	6,518,399
Leasehold improvements	5,326,646	4,205,555	1,121,091	1,171,841
Tenant improvements	1,103,252	1,099,824	3,428	6,389
	22,684,764	10,682,403	12,002,361	11,886,079

b) Other property and equipment

	2010		2009
	Cost \$	Accumulated amortization \$	Net \$
Furniture and fixtures	2,533,698	1,844,474	775,773
Computer hardware	1,109,836	763,782	251,994
Law libraries - at nominal value	1	-	1
	3,643,535	2,608,256	1,027,768

c) Intangible assets

	2010		2009
	Cost \$	Accumulated amortization \$	Net \$
Computer software	707,726	370,776	410,999

In 2010, intangible assets, consisting entirely of computer software, with an aggregate amount of \$64,065 (2009 - \$234,153) were purchased.

5. Deferred revenue

As at December 31, 2010, fees and assessments of \$16.1 million (2009 - \$15.2 million) related to the subsequent year were received and recorded as deferred revenue. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in the Lawyers Insurance Fund's investment portfolio.

6. 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:

	2010 \$	2009 \$
Balance - Beginning of year	92,508	103,145
Less: Amortization for the year	(11,379)	(10,637)
Balance - End of year	81,129	92,508

7. Unrestricted net assets

The General Fund unrestricted net assets include \$221,683 (2009 - \$126,810) which has been appropriated for contribution to future trust administration fee related expenses. During the year, \$2.4 million (2009 - \$2.4 million) in trust administration fee revenue was collected, and \$2.3 million (2009 - \$3.3 million) in trust administration fee expenses was incurred. A resolution was passed by the Benchers in November, 2009, to fund the forensic audit department from the practice fee in 2010 and onwards.

The General Fund unrestricted net assets also include \$1,220,052 (2009 - \$956,908) which has been allocated to planned capital expenditures in accordance with the capital plan.

8. Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan is secured by the 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 Lawyers Insurance Fund investment portfolio. Interest paid on the building loan is disclosed in note 9. The outstanding building loan balance at the end of the 2010 year is \$5.6 million. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2010, principal of \$500,000 (2009 - \$500,000) was repaid.

	2010 %	2009 %
Weighted average rate of interest	3.23	4.08

9. Interfund transactions

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Balances between the funds 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 Lawyers 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 authorized a loan facility of up to \$1 million, of which \$nil has been drawn down at December 31, 2010, to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Lawyers Insurance Fund has also authorized a loan facility of up to \$8 million, of which \$nil has been drawn down at December 31, 2010, 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 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 2010 was 3.23 % (2009 - average rate - 4.08%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Insurance Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund to finance ongoing operations.

During 2010, interest of \$181,674 was paid on the building loan and interest revenue of \$294,991 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$33,126 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$146,443.

During 2009, interest of \$255,350 was paid on the building loan and interest revenue of \$355,431 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$5,072 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$105,153.

Other interfund transactions are disclosed elsewhere in these financial statements.

10. Special Compensation Fund claims**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, 2010, there were 10 claims amounting to approximately \$714,000 for which 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 provided that total claims attributable to the period in excess of \$2,500,000 were 100% reimbursed by a commercial insurer up to a maximum of \$15,000,000 for claims against one lawyer and in total, other than as noted in note 10(b). As set out in note 1, claims reported after May 1, 2004 are subject to Part B coverage by the Lawyers Insurance Fund.

b) Wirick case

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

At December 31, 2010, there were eight claims still under consideration with total reported losses of \$696,000.

Until May 1, 2004, the Special Compensation Fund carried insurance of \$15,000,000 for each bond period (\$17,500,000 total coverage with a deductible of \$2,500,000). The bond period is defined as the year in which the Society becomes aware of evidence indicating a member may have been guilty of an act or acts of misappropriation or wrongful conversion. All claims concerning Mr. Wirick fell into the 2002 bond period and as such, the Special Compensation Fund had

claims greater than its level of insurance. In early 2005, the final proof of loss that reached this limit was filed. In 2002, the Benchers agreed to allow the Special Compensation Fund Committee to exceed the \$17,500,000 cap they had imposed in the Society rules.

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

In 2010, the Special Compensation Fund recovered \$51,474 (2009 - \$2.6 million) related to the Wirick case.

11. Related parties

The non-appointed 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, 2010, expenses of \$176,968 (2009 - \$72,309) were incurred by the General Fund during the normal course of business.



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May 17, 2011

Independent Auditor's Report

To the Members of The Law Society of British Columbia

We have audited the accompanying consolidated financial statements of The Law Society of British Columbia - Lawyers Insurance Fund, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statements of changes in net assets, revenue and expenses and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia - Lawyers Insurance Fund as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

THE LAW SOCIETY OF BRITISH COLUMBIA – LAWYERS INSURANCE FUND

Consolidated Statement of Financial Position

As at December 31, 2010

	2010 \$	2009 \$
Assets		
Cash and cash equivalents	21,534,553	20,573,241
Accounts receivable	660,625	297,973
Prepaid expenses	115,962	50,119
Reinsurers' share of provision for claims (note 1)	819,371	1,739,001
Members' share of provision for claims	1,135,743	1,220,723
General Fund building loan (note 4)	5,600,000	6,100,000
Investments (note 3)	108,286,716	105,081,808
	<u>138,152,970</u>	<u>135,062,865</u>
Liabilities		
Accounts payable and accrued liabilities	2,339,524	1,689,998
Deferred revenue	6,706,891	6,001,244
Due to General Fund (note 6)	17,577,601	16,371,427
Due to Special Compensation Fund (note 6)	894,948	2,753,596
Provision for claims (note 5)	57,582,333	57,370,303
Provision for ULAE (note 5)	7,618,000	8,073,000
	<u>92,719,297</u>	<u>92,259,568</u>
Net assets		
Unrestricted net assets	27,933,673	25,303,297
Internally restricted net assets (note 7)	17,500,000	17,500,000
	<u>45,433,673</u>	<u>42,803,297</u>
	<u>138,152,970</u>	<u>135,062,865</u>
Commitments (note 6)		
Contingencies (note 10)		

Approved by


President


Chair of Audit Committee

THE LAW SOCIETY OF BRITISH COLUMBIA – LAWYERS INSURANCE FUND

Consolidated Statement of Changes in Net Assets
For the year ended December 31, 2010

	2010		2009
	Unrestricted \$	Internally restricted \$	Total \$
Net assets - Beginning of year	25,303,297	17,500,000	42,803,297
Deficiency of revenue over expenses for the year	(2,447,061)	-	(2,447,061)
Unrealized gains on available-for-sale financial assets arising during the year	5,816,811	-	5,816,811
Realized (gain) loss on disposal of investments recognized in the statement of revenue and expense	(739,374)	-	(739,374)
Net change in unrealized gains and losses on available-for-sale financial assets	5,077,437	-	5,077,437
Net assets - End of year	27,933,673	17,500,000	45,433,673

THE LAW SOCIETY OF BRITISH COLUMBIA – LAWYERS INSURANCE FUND

Consolidated Statement of Revenue and Expenses
For the year ended December 31, 2010

	2010 \$	2009 \$
Revenue		
Annual assessments	12,099,297	10,427,679
Investment income (loss) (note 3)	2,526,036	(1,234,116)
Other income	42,332	49,947
	14,667,665	9,243,510
Insurance expenses		
Actuary, consultant and investment manager fees	373,317	388,828
Allocated office rent from General Fund	116,164	116,100
Contribution to program and administrative costs of General Fund	1,423,207	1,388,580
Office	485,068	533,029
Premium taxes	13,441	12,365
Provision for settlement of claims (note 5)	12,394,950	8,808,851
(Recovery of) provision for ULAE (note 5)	(455,000)	186,167
Salaries, wages and benefits	2,132,358	1,987,820
	16,483,505	13,421,740
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	625,768	638,152
	17,109,273	14,059,892
Deficiency of revenue over expenses before the following	(2,441,608)	(4,816,382)
Provision for current income taxes	5,453	3,341
Deficiency of revenue over expenses for the year	(2,447,061)	(4,819,723)

Consolidated Statement of Cash Flows
For the year ended December 31, 2010

	2010 \$	2009 \$
Cash flows from operating activities		
Deficiency of revenue over expenses for the year	(2,447,061)	(4,819,723)
Items not affecting cash		
Realized (gain) loss on disposal of investments	(739,374)	3,371,994
Amortization of 750 Cambie Street building	452,018	443,175
Amortization of deferred tenant inducement	25,658	43,984
	(2,708,759)	(960,570)
Decrease (increase) in assets		
Accounts receivable	(362,652)	(114,789)
Prepaid expenses	(65,843)	(26,469)
Reinsurers' share of provision for claims	919,630	(1,000,173)
Members' share of provision for claims	84,980	169,444
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	649,526	1,041,030
Deferred revenue	705,647	717,920
Provision for claims	212,031	(944,615)
Provision for ULAE	(455,000)	192,000
	(1,020,440)	(926,222)
Cash flows from investing activities		
Purchase of investments	(1,541,474)	(78,401,366)
Proceeds of disposal of investments	3,675,700	77,259,292
Decrease in General Fund building loan	500,000	500,000
	2,634,226	(642,074)
Interfund transfers (note 6)	(652,474)	1,196,361
Increase (decrease) in cash and cash equivalents	961,312	(371,935)
Cash and cash equivalents - Beginning of year	20,573,241	20,945,176
Cash and cash equivalents - End of year	21,534,553	20,573,241
Represented by:		
Cash	2,806,770	1,857,277
Cash equivalents	18,727,783	18,715,964
	21,534,553	20,573,241
Supplementary cash flow information		
Interest paid	328,117	360,503
Interest income received	216,702	257,743

1. Nature of operations

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. Effective January 1, 1990, the Fund began underwriting the program by which errors and omissions insurance is provided to members of the Society.

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

The Society's members have current coverage as follows:

Part A

	\$		\$
Deductible - member	5,000	or	10,000
Deductible - the Fund	995,000	or	990,000
			<hr/>
Total coverage per error or related errors			1,000,000
			<hr/>
Annual aggregate per member			2,000,000
			<hr/>

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 Fund on behalf of the Society under agreement.

Part B

For the 2010 policy period, there is a \$300,000 per claim limit and a \$17,500,000 profession-wide annual aggregate limit. The Fund has obtained reinsurance in the amount of \$5,000,000 to cover a portion of the annual aggregate limit. This reinsurance attaches above a \$3,000,000 deductible and is re-insured such that amounts over the deductible are 80% covered by the reinsurer to a maximum of \$5,000,000, with the remaining 20% covered by the Fund.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Basis of consolidation

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

Separate financial statements have been prepared for the Law Society's General Fund and Special Compensation Fund.

Allocated administrative expenses

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

Amortization

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

Building - 750 Cambie Street	2-1/2% per annum
Base building - improvements	2-1/2% 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 with original maturities of less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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.

Fair value of financial instruments

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

The carrying values of the General Fund building loan receivable and other balances with related parties approximates fair values based upon the interest rate applied.

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 expenses. Investment transactions are recorded on a trade date basis and transaction costs are included in the determination of excess of revenue over expenses 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 and ULAE represents an estimate for all external costs of investigating and settling claims and potential claims reported prior to the date of the statement of financial position. The provision is adjusted as additional information on the estimated amounts becomes known during the course of claims settlement. All changes in estimates are expensed in the current period. The Fund presents its claims on a discounted basis.

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 expenses 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 recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

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

Use of estimates

The preparation of financial statements in conformity with 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

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 expenses. 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.

3. Investments

	2010 \$	2009 \$
Investments - at fair value	95,745,177	92,062,594
750 Cambie Street Building	12,541,539	13,019,214
	108,286,716	105,081,808

	2010			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	37,676,943	3,437,687	-	41,114,630
Equities				
Canadian Pooled Funds	15,575,500	8,685,762	-	24,261,262
International Pooled Funds	23,754,070	6,615,215	-	30,369,285
	39,329,570	15,300,977	-	54,630,547
	77,006,513	18,738,664	-	95,745,177

The effective yield on the investment portfolio was 2.38% (2009 - 2.81%).

	2009			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	37,015,875	1,652,352	-	38,668,227
Equities				
Canadian Pooled Funds	17,237,379	5,821,395	-	23,058,774
International Pooled Funds	24,148,112	6,187,481	-	30,335,593
	41,385,491	12,008,876	-	53,394,367
	78,401,366	13,661,228	-	92,062,594

Investment risk management

The Society has adopted policies which establish the guidelines for all investment activities. These guidelines apply to the investment funds owned and 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 moderate portfolio with a mix of fixed income and equity securities. The Society invests in bonds and equities through pooled funds.

Credit risk

Cash and cash equivalents, account receivable, reinsurers' share of provision for claims, members' share of provision for claims and bond pooled funds expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above noted items is \$65,264,922 (2009 - \$62,499,165).

Credit risk 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.

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's investment portfolio is classified as available for sale; therefore, changes in the fair value of investments are reported within the statement of changes in net assets, until realized or deemed to be other than temporary.

The Fund manages market risk by diversifying investments within the various asset classes.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2010, the sum of the Fund's cash and investment balances exceeded the sum of the liabilities by \$24.6 million, or 26% (2009 - \$20.4 million, or 22%).

Investment income (loss)

	2010 \$	2009 \$
Interest on cash and cash equivalents	35,023	2,393
Pooled distributions	1,542,569	1,971,079
Net interfund loan interest expense (note 6)	(146,444)	(105,153)
Realized gain (loss) on disposal of investments	739,374	(3,371,994)
Building income - 750 Cambie Street (revenue of \$1,615,177; net of expenses of \$1,259,663)	355,514	269,559
Net investment income (loss)	2,526,036	(1,234,116)

750 Cambie Street Building

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

	2010		2009	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,299,850	-	4,299,850	4,299,850
Building	4,971,376	814,617	4,156,759	4,282,722
Base building improvements	3,219,651	489,183	2,730,468	2,813,198
Tenant improvements	2,388,412	1,226,384	1,162,028	1,392,523
Deferred tenant inducements	408,705	216,271	192,434	230,921
	15,287,994	2,746,455	12,541,539	13,019,214

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 845 Cambie Street, Vancouver, BC. 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's investment portfolio. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2010, principal of \$500,000 (2009 - 500,000) was repaid.

	2010 %	2009 %
Weighted average rate of return	3.23	4.08

5. 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:

	2010 \$	2009 \$
Part A Insurance Coverage		
Provision for claims - Beginning of year	56,873,478	57,923,411
Provision for losses and expenses for claims occurring in the current year	14,033,000	11,776,000
Decrease in estimated losses and expenses for losses occurring in prior years	(1,848,000)	(3,114,000)
Provision for claims liability	69,058,478	66,585,411
Less:		
Payments on claims incurred in the current year	(813,336)	(879,023)
Payments on claims incurred in prior years	(10,260,200)	(9,816,083)
Recoveries on claims	130,450	166,507
Change in reinsurers' share of recovery of claims	(880,000)	960,000
Change in due from members	(89,435)	(143,334)
Claim payments - net of recoveries	(11,912,521)	(9,711,933)
Provision for claims - End of year	57,145,957	56,873,478
Part B Insurance Coverage	436,376	496,825
Total provision for Part A and B Insurance Coverage	57,582,333	57,370,303

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's 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 reinsurer's 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 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 and potential claims reported up to the statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 4.02% (2009 - 4.14%). 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 a Provision for Adverse Deviations (PfAD) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PfAD is selected based on guidance from the Canadian Institute of Actuaries.

The effects of discounting are as follows (in thousands of dollars):

	2010 \$	2009 \$
Undiscounted	61,636	60,981
Effect of present value	(8,536)	(8,496)
PfADs	10,171	10,058
Discounted	63,271	62,543

Role of the actuary

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

The valuation is based on projections for settlement of reported claims and claim adjustment expenses. It is certain that actual claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes of claims or claims categories not sufficiently recognized in the claims database.

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

6. Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are administered by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at exchange amounts at the dates of the transactions. Surplus funds are invested in the Fund's investment portfolio.

Amounts due to and from the General Fund and the Special Compensation Fund are due on demand and have no fixed terms of repayment. The Fund has authorized a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Fund has also authorized a loan facility of up to \$8 million to the Special Compensation Fund. As of December 31, 2010, no amounts have been drawn on the facilities (2009 - nil).

Monthly interest on the Fund's net loan position with the General Fund and Special Compensation Fund is paid to the Fund at a rate equal to the stated monthly bond yield to maturity earned on the Fund's investment portfolio. The average bond yield for 2010 was 3.23% (2009 average rate - 4.08%). 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, the Special Compensation Fund and the Fund to finance ongoing operations.

During 2010, interest revenue of \$181,674 was received on the General Fund building loan, interest of \$294,991 was paid on the General Fund cash balances held by the Fund and \$33,126 was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$146,444.

During 2009, interest revenue of \$255,350 was received on the General Fund building loan and interest of \$355,431 was paid on General Fund cash balances held by the Fund and \$5,072 was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$105,153.

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

7. Internally restricted net assets

The Benchers have allocated \$17,500,000 (2009 - \$17,500,000) of the net assets to the Part B defalcation coverage.

8. 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 throughout the year and as at December 31, 2010.

9. 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, 2010, expenses of \$272,072 (2009 - \$223,360) were incurred by the Fund during the normal course of business.

10. Contingencies

On May 3, 2011, a Tax Auditor for the Ministry of Finance informed the LSBC Captive Insurance Company Ltd. that the Ministry contends that the annual assessments contributed by Members to the Lawyers Insurance Fund constitute premiums payable to the Company for purposes of the Insurance Premium Tax Act and that the Ministry proposes to adjust the Company's net taxable premiums from 2005 to 2009 to reflect this. The proposed additional tax is \$2 million. The Company maintains that it is liable for premium tax only on amounts received by it from the Lawyers Insurance Fund as a reimbursement of reinsurance premiums and general and administrative costs. That premium tax has been paid in full. The Company will dispute the Ministry's proposal. The Company has accounted for this matter using the contingent liability method, whereby a provision is established only when it is considered likely that a liability will be incurred. Management considers that the outcome of this matter is not determinable at this time and therefore no provision has been established. If any amounts become due, the Lawyers Insurance Fund will reimburse the Company under agreement.