THE LAW SOCIETY OF BRITISH COLUMBIA

Financial Statements

December 31, 2013

Contents

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 2013 audited financial statements for the three funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Chartered Professional Accountants of Canada.

During 2013, 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 Consolidated Lawyers Insurance Fund
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Committee Report prepared by the Law Society auditors
- Recommending the 2014 practice fees and assessments, and reviewing corresponding budgets

General Fund

Overview

Overall, the 2013 results for the General Fund were slightly more favourable than expected, with an operating surplus of $1.4 million.

Revenues

General Fund revenue was $23.9 million, $876,000 higher than 2012 with growth in the number of lawyers and an increase in the 2013 practice fee. During 2013, net growth in the number of full-time equivalent practising lawyers was just above 2% resulting in a total of 10,985 full fee paying equivalent lawyers for the year, a similar increase in lawyers to the prior year. The increase in the 2013 practice fee provided for market-based staff salary adjustments, along with the implementation of an electronic document and records management system. Professional Legal Training Course (PLTC) enrolment revenue was higher than 2012, with 442 PLTC students attending during the year, as compared to 410 students in 2012. Additionally, there was an increase in custodianship recoveries over 2012. Offsetting these revenue increases was a decline in electronic filing fee revenue of $38,000 compared to 2012, due to a reduced number of transactions.

The Lawyers Insurance Fund contributed $2.4 million to the General Fund for co-sponsored programs and for general program and administrative expenses attributable to operations.

The net operating revenue from the Law Society buildings at 845/835 Cambie Street increased $130,000, with two new leases in place.

Expenses

The 2013 General Fund expenses increased by $974,000, or 4%, to $24.8 million compared to $23.8 million in 2012.

The regulatory departments had increased operating expenses from 2012 levels due to an increase in market-based staff salary adjustments and increased external professional fees due to some large case files and staff vacancies. This was partially offset by staff vacancy savings in Professional Conduct and travel cost savings in Trust Assurance.

Policy and Legal Services expenses increased over 2012, with market-based staff salary adjustments, a staff position vacancy from 2012 being filled in 2013, costs related to implementation of privacy recommendations and increased hearing tribunal costs, which were offset by lower external professional fees within External Litigation and Unauthorized Practice.

Communication and Information Services costs overall were similar to 2012, with an increase due to costs associated with the implementation of an electronic document and records management system and market-based staff salary adjustments being offset by staff vacancy savings and reduced public relations costs.

Education and Practice expenses increased due to market-based staff salary adjustments and increased external professional fees for credentials matters. There were also administrative costs related to delivering PLTC to the additional students in the year, and a review of the lawyer support and advice function.

General and Administrative department costs increased due to market-based staff salary adjustments, as well as recruiting costs.

Bencher Governance expenses were reduced from last year as 2012 included costs associated with the governance review and there was a reduction in committee meeting costs. The Federation of Law Societies of Canada contribution increased from $20 to $25 per member. The per member contribution to Access Pro Bono increased from $15.02 to $15.44, in addition to an additional in-kind rent contribution of $35,000.

Net Assets

Overall, the General Fund continues to remain financially sound. As of December 31, 2013, net assets in the General Fund were $9.9 million. The General Fund net asset balance (before capital funding) is $8.4 million, which is mainly invested in capital assets including the 845 Cambie building. The net assets balance also includes $1.5 million in capital funding for planned capital projects related to the 845 Cambie building as workspace improvements for Law Society operations.

Special Compensation Fund

Overview

Previously, the Special Compensation Fund was maintained pursuant to Section 31 of the *Legal Profession Act*, was financed by members' annual assessments, and claims were recorded net of recoveries when they had been approved for payment.

In 2012, the *Legal Profession Amendment Act*, 2012 repealed section 31 of the *Legal Profession Act*. In addition, Section 23 of the *Legal Profession Act* was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Section 50 of the *Legal Profession Amendment Act*, 2012 provides for the transfer of unused reserves that remain within the Special Compensation Fund to the Lawyers Insurance Fund for the purposes of the insurance program, which will occur when all recoveries are received.

Effective May 1, 2004, Part B of the BC 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.

Revenues

The Special Compensation Fund assessment was reduced to $nil in 2013, and as such, there was no revenue in 2013.

Expenses

Since 2004, the Lawyers Insurance Fund has been providing coverage for dishonest appropriation of funds by lawyers; therefore, there were no claims costs in 2013. During the year, administrative costs of $26,000 were incurred, offset by $55,000 in cost recoveries and $33,000 in interest income.

Net Assets

At the end of 2013, the Special Compensation Fund net assets were $1.3 million.

Lawyers Insurance Fund

Overview

The Lawyers Insurance Fund (LIF) remains in a strong financial position at the end of 2013. Annual assessments were slightly higher due to additional insured members, and overall investment returns were higher than the benchmark.

Revenues

The 2013 insurance assessment remained at $1,750 per insured member, resulting in total revenue of $13.9 million, compared to $13.7 million in 2012.

During 2013, the long-term investment portfolio performed very well, earning a return of 15.9%, compared to a benchmark return of 11.8%. The market value of the investment portfolio increased by $15.7 million, which has been recognized through the statement of revenue and expenses in accordance with Canadian accounting standards for not-for-profit organizations.

Expenses

In 2013, LIF general operating costs, including the $2.4 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were $6.2 million, compared to $6.0 million in 2012. This increase reflects market-based staff salary increases.

The net actuarial provision for settlement of claims in 2013 was $14.1 million, increased from $11.1 million in 2012, due to an increase in severity of claims during the year. The provision for claims on the balance sheet at the end of 2013 was $53.3 million, compared to $52.1 million in 2012.

Net Assets

As of December 31, 2013, the LIF net assets were $59.4 million, which includes $17.5 million internally restricted for Part B claims, leaving $41.9 million in unrestricted net assets.

May 10, 2014

Independent Auditor's Report

To the Members of
The Law Society of British Columbia

We have audited the accompanying combined financial statements of The Law Society of British Columbia - General and Special Compensation Funds, which comprise the combined statement of financial position as at December 31, 2013 and the combined statements of revenue and expenses, changes in net assets, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

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Opinion
In our opinion, the combined 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, 2013 and the results of their operations and their cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

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	2013			2012
	General Fund $	Special Compensation Fund $	Total $	Total $
Assets				
Current assets				
Cash	178,790	500	179,290	672,268
Unclaimed trust funds (note 2)	1,808,056	-	1,808,056	1,671,528
Accounts receivable and prepaid expenses (note 3)	1,105,280	-	1,105,280	981,687
B.C. Courthouse Library Fund (note 2)	504,863	-	504,863	2,487,341
Due from Lawyers Insurance Fund (note 10)	22,210,866	1,289,450	23,500,316	20,798,052
	25,807,855	1,289,950	27,097,805	26,610,876
Non-current assets				
Cambie Street property - net (note 4)	12,720,761	-	12,720,761	11,382,055
Other property and equipment - net (note 4)	893,368	-	893,368	952,176
Intangible assets - net (note 4)	544,920	-	544,920	640,586
	39,966,904	1,289,950	41,256,854	39,585,693
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 5)	4,595,351	2,708	4,598,059	2,743,122
Liability for unclaimed trust funds (note 2)	1,808,056	-	1,808,056	1,671,528
Current portion of building loan payable (note 9)	500,000	-	500,000	500,000
Deferred revenue (notes 2 and 6)	18,971,144	-	18,971,144	18,224,916
Deferred capital contributions (notes 2 and 7)	46,995	-	46,995	58,373
B.C. Courthouse Library grant (note 2)	504,863	-	504,863	2,487,341
Deposits	32,208	-	32,208	30,899
	26,458,617	2,708	26,461,325	25,716,179
Building loan payable (notes 9 and 10)	3,600,000	-	3,600,000	4,100,000
	30,058,617	2,708	30,061,325	29,816,179
Net assets				
Unrestricted (note 8)	9,908,287	1,287,242	11,195,529	9,769,514
	39,966,904	1,289,950	41,256,854	39,585,693

Commitments (notes 15)

Approved by

President

Chair of Finance and Audit Committee

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

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

Combined Statement of Changes in Net Assets

For the year ended December 31, 2013

	2013			2012
	General Fund - Unrestricted $	Special Compensation Fund - Unrestricted $	Total $	Total $
Net assets - Beginning of year	8,543,318	1,226,196	9,769,514	8,043,989
Net excess of revenue over expenses for the year	1,364,969	61,046	1,426,015	1,725,525
Net assets - End of year (note 8)	9,908,287	1,287,242	11,195,529	9,769,514

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

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

Combined Statement of Revenue and Expenses

For the year ended December 31, 2013

	2013			2012
	General Fund $	Special Compensation Fund $	Total $	Total $
Revenue				
Practice fees	18,228,727	-	18,228,727	17,393,093
Annual assessments	-	-	-	10,818
Trust administration fees	2,165,619	-	2,165,619	2,158,069
Enrolment fees	1,106,000	-	1,106,000	1,041,900
Interest and other income (note 10)	794,883	-	794,883	841,216
E-filing revenue	816,435	-	816,435	854,441
Fines and penalties	410,901	-	410,901	367,344
Application fees	410,265	-	410,265	389,770
	23,932,830	-	23,932,830	23,056,651
Expenses				
Bencher Governance				
Bencher, AGM and other committees	1,102,264	-	1,102,264	1,312,622
Federation of Law Societies' contribution	271,783	-	271,783	249,680
CanLII's contribution	382,809	-	382,809	375,736
Pro bono contribution	200,849	-	200,849	161,863
Communication and Information Services				
Communications and publications	1,129,870	-	1,129,870	1,049,313
Information services	1,250,278	-	1,250,278	1,360,959
Education and Practice				
Credentials	683,819	-	683,819	522,884
Ethics	196,350	-	196,350	177,574
Member services	738,063	-	738,063	646,661
Membership assistance programs	236,190	-	236,190	229,080
Practice advice	609,502	-	609,502	553,973
Practice standards	621,355	-	621,355	578,205
Professional Legal Training Course and Education	2,119,178	-	2,119,178	1,981,842
General and Administrative				
Accounting	760,552	-	760,552	738,334
Amortization of other property and equipment	464,421	-	464,421	422,988
General administration	1,739,132	-	1,739,132	1,703,402
Human resources	910,377	-	910,377	830,358
Records management and library	338,941	-	338,941	306,849
Policy and Legal Services				
Policy and tribunal counsel	1,611,839	-	1,611,839	1,323,681
External litigation and interventions	101,250	-	101,250	155,483
Unauthorized practice	320,102	-	320,102	304,230
Regulation				
Custodianship costs	1,381,315	-	1,381,315	1,346,852
Discipline	1,372,817	-	1,372,817	1,208,454
Professional conduct - intake and investigations	3,890,731	-	3,890,731	3,921,672
Forensic accounting	454,698	-	454,698	407,735
Trust assurance	1,917,807	-	1,917,807	1,962,182
Carried forward	24,806,292	-	24,806,292	23,832,612

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

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

Combined statement of Revenue and Expenses ...*continued*

For the year ended December 31, 2013

	2013			2012
	General Fund $	Special Compensation Fund $	Total $	Total $
Brought forward	24,806,292	-	24,806,292	23,832,612
Special Compensation Fund				
Recoveries	-	(54,612)	(54,612)	(515,460)
Claims and costs (note 11)	-	-	-	162,399
General and administrative costs	-	26,185	26,185	97,196
Loan interest income from Lawyers Insurance Fund (note 10)	-	(32,619)	(32,619)	(27,760)
	24,806,292	(61,046)	24,745,246	23,548,987
Costs recovered from Special Compensation and Lawyers Insurance Funds				
Co-sponsored program costs	(808,602)	-	(808,602)	(783,053)
Program and administrative costs	(1,578,466)	-	(1,578,466)	(1,556,930)
	22,419,224	(61,046)	22,358,178	21,209,004
Excess of revenue over expenses before the following	1,513,606	61,046	1,574,652	1,847,647
845 Cambie net results				
Rental revenue	272,076	-	272,076	115,698
Allocated rental revenue (note 2)	1,745,670	-	1,745,670	1,772,320
	2,017,746	-	2,017,746	1,888,018
Expenses				
Amortization	699,682	-	699,682	547,813
Insurance	80,696	-	80,696	72,323
Loan interest expense (note 9)	100,657	-	100,657	110,293
Property management	203,654	-	203,654	189,858
Property taxes	493,723	-	493,723	481,360
Repair and maintenance	613,627	-	613,627	677,473
Utilities	115,083	-	115,083	113,827
Recovery from tenants	(140,739)	-	(140,739)	(182,807)
	2,166,383	-	2,166,383	2,010,140
Net 845 Cambie operating revenue	(148,637)	-	(148,637)	(122,122)
Net excess of revenue over expenses for the year	1,364,969	61,046	1,426,015	1,725,525

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

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

Combined Statement of Cash Flows

For the year ended December 31, 2013

	2013			2012
	General Fund $	Special Compensation Fund $	Total $	Total $
Cash flows from operating activities				
Net excess of revenue over expenses for the year	1,364,969	61,046	1,426,015	1,725,525
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	699,682	-	699,682	592,951
Amortization of other property and equipment	293,941	-	293,941	278,926
Amortization of intangible assets	170,473	-	170,473	98,924
Amortization of deferred capital contributions	(11,378)	-	(11,378)	(11,378)
Loss on disposal of capital assets	320	-	320	13,873
	2,518,007	61,046	2,579,053	2,698,821
(Increase) decrease in current assets				
Unclaimed trust funds	(136,528)	-	(136,528)	176,323
Accounts receivable and prepaid expenses	(123,593)	-	(123,593)	147,376
B.C. Courthouse Library Fund	1,982,478	-	1,982,478	(1,809,623)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	2,022,823	(167,886)	1,854,937	(1,303,593)
Liability for unclaimed trust funds	136,528	-	136,528	(176,323)
Deferred revenue	746,228	-	746,228	723,369
B.C. Courthouse Library grant	(1,982,478)	-	(1,982,478)	1,809,623
Deposits	1,309	-	1,309	1,500
	5,164,774	(106,840)	5,057,934	2,267,473
Cash flows from financing activities				
Decrease in building loan payable	(500,000)	-	(500,000)	(500,000)
Cash flows from investing activities				
Purchase of property and equipment	(2,273,841)	-	(2,273,841)	(459,109)
Purchase of intangible assets	(74,807)	-	(74,807)	(398,684)
	(2,348,648)	-	(2,348,648)	(857,793)
Interfund transfers	(2,809,104)	106,840	(2,702,264)	(517,067)
(Decrease) increase in cash	(492,978)	-	(492,978)	392,613
Cash - Beginning of year	671,768	500	672,268	279,655
Cash - End of year	178,790	500	179,290	672,268
Supplementary cash flow information				
Interest paid	100,657	-	100,657	110,293
Interest income received	306,054	32,619	338,673	273,599

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

1. Nature of operations

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

The General Fund comprises the assets, liabilities, net assets, revenue and expenses of the operations of the Society other than those designated to the statutory Special Compensation Fund and the Lawyers Insurance Fund (including its wholly owned subsidiary, LSBC Captive Insurance Company Ltd.).

The Special Compensation Fund is maintained by the Society pursuant to Section 31 of the Legal Profession Act (LPA). The Special Compensation Fund 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 LPA provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

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

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

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

Allocated administrative expenses

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

Allocated rental revenue

The Cambie Street property is treated as a separate cost centre. Allocated rental revenue represents estimated 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 combined 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 combined 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

Cash comprises cash on hand.

Claims liabilities

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

Deferred capital contributions

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

Fair value of financial instruments

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

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

Intangible assets

Intangible assets comprise 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	40 years from purchase date
Computer hardware	10% - 20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum
Building improvements and equipment	10% per annum
Tenant improvements	over lease period

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

Revenue recognition

The Society follows the deferral method of accounting for 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 unclaimed trust funds as an asset as well as a corresponding liability 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 combined 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 combined financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined 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 $579,096 (2012 - $651,531).

4. Property, equipment and intangible assets

a) 845 Cambie Street property

	2013		
	Cost $	Accumulated amortization $	Net $
Land	4,189,450	-	4,189,450
Buildings	12,017,275	6,365,132	5,652,143
Leasehold improvements	7,740,102	5,069,290	2,670,812
Tenant improvements	604,124	395,768	208,356
	24,550,951	11,830,190	12,720,761

	2012		
	Cost $	Accumulated amortization $	Net $
Land	4,189,450		4,189,450
Buildings	12,011,261	6,034,257	5,977,004
Leasehold improvements	5,943,787	4,729,190	1,214,597
Tenant improvements	989,595	988,591	1,004
	23,134,093	11,752,038	11,382,055

b) Other property and equipment

	2013		
	Cost $	Accumulated amortization $	Net $
Furniture and fixtures	2,404,514	1,766,392	638,122
Computer hardware	1,011,271	759,779	251,492
Artwork and collectibles	49,158	45,405	3,753
Law libraries - at nominal value	1	-	1
	3,464,944	2,571,576	893,368

	2012		
	Cost $	Accumulated amortization $	Net $
Furniture and fixtures	2,258,669	1,653,756	604,913
Computer hardware	964,698	617,443	347,255
Artwork and collectibles	45,412	45,405	7
Law libraries - at nominal value	1	-	1
	3,268,780	2,316,604	952,176

c) Intangible assets

	2013		
	Cost $	Accumulated amortization $	Net $
Computer software	1,279,282	734,362	544,920

	2012		
	Cost $	Accumulated amortization $	Net $
Computer software	1,204,475	563,889	640,586

In 2013, intangible assets, consisting entirely of computer software, with an aggregate amount of $74,807 (2012 - $398,684) were purchased.

5. Government remittances

The following government remittances are included in accounts payable and accrued liabilities:

	2013 $	2012 $
Medical Services Plan of BC	67	(156)
Receivable General – GST/HST	90,234	41,673
Total government remittances payable	90,301	41,517

6. Deferred revenue

As at December 31, 2013, fees and assessments of $18.97 million (2012 - $18.2 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.

7. Deferred capital contributions

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

	2013 $	2012 $
Balance - Beginning of year	58,373	69,751
Less: Amortization for the year	(11,378)	(11,378)
Balance - End of year	46,995	58,373

8. Unrestricted net assets

The General Fund unrestricted net assets include $1,481,350 (2012 - $2,405,370) which has been allocated to capital expenditures in accordance with the capital plan. The remaining General Fund net assets represent amounts invested in capital assets.

The General Fund unrestricted net assets also include a ($38,600) deficit balance (2012 - $71,517 net asset balance). During the year, $2.2 million (2012 - $2.2 million) in trust administration fee revenue was collected, and $2.3 million (2012 - $2.3 million) in trust administration fee expenses was incurred.

9. 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 11. The outstanding building loan balance at the end of the 2013 year is $4.1 million (2012 - $4.6 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 2013, principal of $500,000 (2012 - $500,000) was repaid.

	2013 %	2012 %
Weighted average rate of interest	2.44	2.39

10. Interfund transactions

The operations of the General, Lawyers Insurance and Special Compensation Funds are controlled by the management of the Society. Balances between the funds generally arise from transactions of an operating nature and are recorded at the exchange amount at the dates of the transactions. Surplus funds are 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, 2013 (2012 - $nil), to the General Fund to fund capital expenditures in accordance with the capital plan. The Lawyers Insurance Fund has also authorized a loan facility of up to $8 million, of which $nil has been drawn down at December 31, 2013 (2012 - $nil), to the Special Compensation Fund.

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is earned at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. The average bond yield for 2013 was 2.44% (2012 - average bond yield - 2.39%). 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 2013, interest of $100,657 was paid on the building loan and interest revenue of $255,714 was received from General Fund cash balances held by the Lawyers Insurance Fund and $32,619 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of $187,676.

During 2012, interest of $110,293 was paid on the building loan and interest revenue of $245,839 was received from General Fund cash balances held by the Lawyers Insurance Fund and $27,760 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of $163,306.

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

11. Special Compensation Fund claims and program changes

a) Outstanding claims

Pursuant to section 31(6) of the Legal Profession Act, the payment of Special Compensation Fund claims is at the discretion of the Special Compensation Fund Committee as delegated by the Benchers. As at December 31, 2013, there were no remaining claims for which statutory declarations had been received. All claims for which statutory declarations were received have been reviewed by the Special Compensation Fund Committee.

For claims reported prior to May 1, 2004, the insurance bond provided that total claims attributable to the period in excess of $2,500,000 were 100% reimbursed by a commercial insurer up to a maximum of $15,000,000 for claims against one lawyer and in total, other than as noted in note 11(b). As set out in note 1, claims reported after May 1, 2004, are subject to Part B coverage by the Lawyers Insurance Fund.

b) Wirick case

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

At December 31, 2013, there were no remaining claims still under consideration.

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

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

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

In 2013, the Special Compensation Fund recovered $54,612 (2012 - $515,459) related to the Wirick case.

c) Changes to Special Compensation Fund

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

12. Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2013, expenses of $177,087 (2012 - $140,517) recorded at carrying amount were incurred by the General Fund during the normal course of business with these law firms.

13. Capital management

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

14. Financial instruments

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

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

a) Credit risk

Cash and accounts receivable expose the Funds to credit risk.

The maximum exposure to credit risk arising from the above-noted items is $582,293 (2012 - $1,017,347). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) Liquidity risk

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

15. Obligations and commitments under operating leases

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

	$
For the year ended December 31	
2014	24,144
2015	20,069
2016	17,158
2017	1,911
2018	-
Thereafter	-
Total future minimum lease payments	63,282

For the year ended December 31, 2013, an amount of $39,149 representing payments under operating leases was expensed (2012 - $25,112).

May 10, 2014

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, and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of revenue and expenses, changes in net assets, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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pwc

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, and its subsidiary, as at December 31, 2013 and the results of their operations and their cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP

Chartered Accountants

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The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Statement of Financial Position

As at December 31, 2013

	2013 $	2012 $
Assets		
Cash	19,320,297	3,869,634
Accounts receivable - net of allowance (note 3)	532,829	491,321
Prepaid expenses	397,334	498,226
Short-term investments (note 4)	5,119,563	19,355,051
Members' share of provision for claims	1,034,638	1,093,888
General Fund building loan (note 6)	4,100,000	4,600,000
Investments (note 5)	121,303,940	108,573,086
	151,808,601	138,481,206
Liabilities		
Accounts payable and accrued liabilities (note 3)	1,495,025	1,707,090
Deferred revenue	7,064,705	6,947,265
Due to General Fund (note 8)	22,210,866	19,401,762
Due to Special Compensation Fund (note 8)	1,289,451	1,396,290
Provision for claims (note 7)	53,274,766	52,052,328
Provision for ULAE (note 7)	7,045,000	7,155,000
	92,379,813	88,659,735
Net assets		
Unrestricted net assets	41,928,788	32,321,471
Internally restricted net assets (note 9)	17,500,000	17,500,000
	59,428,788	49,821,471
	151,808,601	138,481,206

Commitments (note 8)

Contingencies (note 12)

Approved by

President

Chair of Finance and Audit Committee

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

The Law Society of British Columbia – Lawyers Insurance Fund
Consolidated Statement of Changes in Net Assets
For the year ended December 31, 2013

	2013			2012
	Unrestricted $	Internally restricted $	Total $	Total $
Net assets - Beginning of year	32,321,471	17,500,000	49,821,471	44,266,894
Excess of revenue over expenses for the year	9,607,317	-	9,607,317	5,554,577
Net assets - End of year	41,928,788	17,500,000	59,428,788	49,821,471

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

Consolidated Statement of Revenue and Expenses

For the year ended December 31, 2013

	2013 $	2012 $
Revenue		
Annual assessments	13,899,938	13,665,545
Investment income (note 5)	5,484,823	2,729,208
Other income	51,665	90,096
	19,436,426	16,484,849
Insurance expenses		
Actuary, consultant and investment manager fees	423,571	390,137
Allocated office rent from General Fund	147,663	148,280
Contribution to program and administrative costs of General Fund	1,581,283	1,566,272
Office	771,291	803,530
Premium taxes	7,697	13,184
Provision for settlement of claims (note 7)	14,204,717	11,010,313
(Recovery of) provision for ULAE (note 7)	(110,000)	90,000
Salaries, wages and benefits	2,431,348	2,336,090
	19,457,570	16,357,806
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	808,602	783,053
	20,266,172	17,140,859
Deficiency of revenue over expenses before the following	(829,746)	(656,010)
Fair value changes in investments (note 5)	10,442,848	6,216,336
	9,613,102	5,560,326
Provision for income taxes	5,785	5,749
Excess of revenue over expenses for the year	9,607,317	5,554,577

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

The Law Society of British Columbia – Lawyers Insurance Fund
Consolidated Statement of Cash Flows
For the year ended December 31, 2013

	2013 $	2012 $
Cash flows from operating activities		
Excess of revenue over expenses for the year	9,607,317	5,554,577
Items not affecting cash		
Unrealized gain on investments	(8,565,482)	(5,878,139)
Realized gain on disposal of investments	(1,877,366)	(338,197)
Pooled distributions from investments	(5,265,681)	(2,514,190)
Amortization of 750 Cambie Street building	477,675	442,431
Amortization of deferred tenant inducement	-	35,244
	(5,623,537)	(2,698,274)
Decrease (increase) in assets		
Accounts receivable	(41,508)	303,344
Prepaid expenses	100,892	(472,954)
Short-term investments	14,235,488	(769,453)
Reinsurers' share of provision for claims	-	423,000
Members' share of provision for claims	59,250	138,014
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(212,065)	474,612
Deferred revenue	117,440	134,286
Provision for claims	1,222,438	(2,478,161)
Provision for ULAE	(110,000)	90,000
Purchase of investments	(4,160,425)	(2,175,000)
Proceeds from disposal of investments	6,660,426	4,750,000
	12,248,399	(2,280,586)
Cash flows from investing activities		
Decrease in General Fund building loan	500,000	500,000
Cash flows from financing activities		
Interfund transfers (note 8)	2,702,264	517,067
Increase (decrease) in cash	15,450,663	(1,263,519)
Cash - Beginning of year	3,869,634	5,133,153
Cash - End of year	19,320,297	3,869,634
Supplementary cash flow information		
Interest paid	288,333	273,599
Interest income received	100,657	110,293

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

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.

Part A

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

	$		$
The Fund	995,000	or	990,000
Deductible - applicable to indemnity payments only	5,000	or	10,000
Limit per error or related errors			1,000,000
Annual aggregate limit for all errors per 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. For the 2013 and 2012 policy years, the Society and the Captive have obtained stop-loss reinsurance in the amount of $12,000,000 to cover aggregate payments over $25,000,000 for Parts A and C of the Policy. This limit is co-insured 80/20 with the reinsurer paying 80% of losses over $25,000,000 to a maximum of $12,000,000 and the Fund paying 20%. All losses on claims since 1997 are fully reimbursed by the Fund on behalf of the Society under agreement.

Part B

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

For the 2013 and 2012 policy years, there is a $300,000 per claim limit and a $17,500,000 profession-wide annual aggregate limit. The Captive has obtained insurance in the amount of $5,000,000 to cover a portion of the annual aggregate limit. There is no deductible payable by the member. This insurance is subject to a $3,000,000 group deductible and is co-insured 80/20 with the insurer paying 80% of losses over $3,000,000 to a maximum of $5,000,000 and the Fund paying 20%.

Part C

Effective January 1, 2012, Part C of the Policy provides defined insurance coverage for trust shortages suffered by insured lawyers as a result of relying on fraudulent certified cheques.

For the 2013 and 2012 policy years, there is a limit of $500,000 per claim, and per lawyer and firm annually, a profession-wide annual aggregate of $2 million, and a deductible of 35% of the client trust fund shortage (reduced by the amount of any overdraft paid). Coverage is contingent upon compliance with the Society's client identification and verification rules.

2. Significant accounting policies

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

Basis of consolidation

These consolidated 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.

Cash

Cash comprises cash on hand.

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, accounts receivable, short-term investments, accounts payable and accrued liabilities and provision for claims payable correspond to their carrying values due to their short-term nature.

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

Short-term investments

Short-term investments consist of pooled money market funds and the carrying amount approximates the fair value at the reporting date due to their short-term maturities.

Investments

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

In addition, the 750 Cambie Street building is a property that is held as an investment for the Fund. The property is recognized at cost. Depreciation 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

Investment income

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

Provision for claims

The provision for claims and unallocated loss adjustment expenses (ULAE) represent an estimate for all external costs of investigating and settling claims and potential claims reported prior to the date of the consolidated 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 consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on a net basis on the consolidated 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 ASNPO requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The determination of the provision for claims and ULAE and the reinsurers' share of the provision for claims, and the fair value of the investment property, involves significant estimation. Actual results could differ from those estimates and the differences could be material.

Financial instruments

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

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

Credit risk

Cash, accounts receivable, members' share of provision for claims and bond pooled funds indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is $68,237,343 (2012 - $64,466,939).

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 manages market risk by diversifying investments within the various asset classes and investing in pooled funds as set out in the guidelines of the Society's statement of investment policies and procedures (SIPP).

Price risk

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

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

As at December 31, 2013, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately $11.0 million (2012 - $9.7 million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2013, the sum of the Fund's cash, short-term investments and pooled fund investments, at fair value, which are available to settle the liabilities of the Society as they come due, exceeded the sum of the liabilities by $42.3 million, or 46% (2012 - $31.6 million, or 36%).

3. Government remittances

The following government remittances are included in accounts receivable and accounts payable:

	2013 $	2012 $
Receiver General – GST/HST	(226,479)	(243,096)
Receiver General - corporate income tax	1,102	1,665
Ministry of Finance - premium tax	7,697	13,184
Receivable	(217,680)	(228,247)

4. Short-term investments

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

	2013 $	2012 $
Money market funds	5,119,563	19,355,051

5. Investments

	2013 $	2012 $
Investments - at fair value	110,195,425	96,986,896
750 Cambie Street Building	11,108,515	11,586,190
	121,303,940	108,573,086

	2013			
	Carrying cost $	Gross unrealized gains $	Gross unrealized losses $	Estimated fair value $
Bonds				
Pooled Funds	43,624,016	-	(1,394,000)	42,230,016
Equities				
Canadian Pooled Funds	17,367,734	10,466,396	-	27,834,130
International Pooled Funds	27,493,187	12,638,092	-	40,131,279
	44,860,921	23,104,488	-	67,965,409
	88,484,937	23,104,488	(1,394,000)	110,195,425

	2012			
	Carrying cost $	Gross unrealized gains $	Gross unrealized losses $	Estimated fair value $
Bonds				
Pooled Funds	39,286,570	370,475	-	39,657,045
Equities				
Canadian Pooled Funds	16,873,326	6,340,285	-	23,213,611
International Pooled Funds	27,681,994	6,434,246	-	34,116,240
	44,555,320	12,774,531	-	57,329,851
	83,841,890	13,145,006	-	96,986,896

The effective yield on the investment portfolio was 2.39% (2012 - 2.50%).

Investment risk management

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

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

The Society's long-term funding requirements and relatively low level of liquidity dictate a portfolio with a mix of fixed income and equity securities. The Society invests in bonds and equities through pooled funds.

Investment income

	2013 $	2012 $
Interest on cash	5,055	4,850
Pooled distributions	5,375,138	2,608,794
Net interfund loan interest expense (note 8)	(187,676)	(163,307)
Building income - 750 Cambie Street (revenue of $1,744,585 (2012 - $1,648,537); net of expenses of $1,452,279 (2012 - $1,369,666)	292,306	278,871
Investment income	5,484,823	2,729,208

Fair value changes in investments

	2013 $	2012 $
Realized gain on disposal of investments	1,877,366	338,197
Unrealized gain on investments measured at fair value	8,565,482	5,878,139
Fair value changes in investments	10,442,848	6,216,336

750 Cambie Street building

The 750 Cambie Street building is held as an investment for the Fund.

	2013			2012
	Cost $	Accumulated amortization $	Net $	Net $
Land	4,299,850	-	4,299,850	4,299,850
Building	4,971,376	1,192,503	3,778,873	3,904,834
Base building improvements	3,219,651	737,373	2,482,278	2,565,009
Tenant improvements	2,314,520	1,843,980	470,540	701,036
Deferred tenant inducements	408,705	331,731	76,974	115,461
	15,214,102	4,105,587	11,108,515	11,586,190

6. General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan 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 2013, principal of $500,000 (2012 - $500,000) was repaid.

	2013 %	2012 %
Weighted average rate of return	2.44	2.39

7. 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:

	2013 $	2012 $
Part A and Part C Insurance Coverage		
Provision for claims - Beginning of year	51,756,469	54,043,143
Provision for losses and expenses for claims occurring in the current year	16,225,000	14,073,000
Decrease in estimated losses and expenses for losses occurring in prior years	(1,817,000)	(3,223,607)
Provision for claims liability	66,164,469	64,892,536
Less:		
Payments on claims incurred in the current year	(2,095,337)	(435,172)
Payments on claims incurred in prior years	(10,938,968)	(13,004,583)
Recoveries on claims	132,683	864,702
Change in reinsurers' share of recovery of claims	-	(423,000)
Change in due from members	(59,250)	(138,014)
Claim payments - net of recoveries	(12,960,872)	(13,136,067)
Provision for claims - End of year	53,203,597	51,756,469
Part B Insurance Coverage	71,169	295,859
Total provision for Parts A, B and C Insurance Coverage	53,274,766	52,052,328

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 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 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 consolidated statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 2.68% (2012 - 4.23%). The Fund determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

A 1% increase in the discount rate will have a favourable impact on the claims liability of $1.760 million (2012 - $1.805 million) and a 1% decrease in the discount rate will have an unfavourable impact on the claims liability of $1.883 million (2012 - $1.938 million).

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

The effects of discounting and the application of PFAD are as follows (in thousands of dollars):

	2013 $	2012 $
Undiscounted	54,884	55,090
Effect of present value	(4,436)	(7,133)
PFADs	8,837	10,157
Discounted	59,285	58,114

Claims development tables

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

Part A insurance claims (in thousands of dollars)

Claims year	2004 $	2005 $	2006 $	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
Estimate of undiscounted ultimate claims costs											
At end of claims year	12,990	17,150	12,260	13,580	13,670	11,520	13,650	14,560	13,390	15,230	
One year later	9,360	14,730	12,770	14,980	13,230	11,310	12,990	13,550	13,080		
Two years later	9,450	12,470	11,530	15,250	13,470	11,500	12,610	11,570			
Three years later	9,430	11,080	9,960	14,940	13,360	13,470	13,210				
Four years later	9,350	10,500	9,650	14,820	13,170	13,960					
Five years later	8,760	10,320	8,960	14,610	13,060						
Six years later	9,370	9,910	8,560	16,190							
Seven years later	10,150	9,710	7,770								
Eight years later	10,050	9,920									
Nine years later	9,850										
Current estimate of cumulative claims	9,850	9,920	7,770	16,190	13,060	13,960	13,210	11,570	13,080	15,230	123,840
Cumulative payments to date	(9,456)	(8,368)	(7,067)	(15,133)	(10,220)	(10,837)	(7,607)	(5,678)	(2,079)	(2,080)	(78,525)
Undiscounted unpaid liability	394	1,552	703	1,057	2,840	3,123	5,603	5,892	11,001	13,150	45,315
Undiscounted unpaid liability in respect of 2003 and prior years											2,979
Undiscounted unallocated loss adjustment expense reserve											6,523
Total undiscounted unpaid claims liability											**54,817**
Discounting adjustment (includes Claim PFAD)											4,397
Total discounted unpaid claims liability											**59,214**

Part B insurance claims (in thousands of dollars)

Claims year	2004 $	2005 $	2006 $	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Total $
Estimate of undiscounted ultimate claims costs											
At end of claims year	82	334	189	251	8	107	23	28	18	53	
One year later	65	134	229	250	7	196	19	24	13		
Two years later	64	109	222	274	9	197	22	23			
Three years later	39	12	221	322	9	197	26				
Four years later	1	15	279	353	9	147					
Five years later	1	16	297	375	9						
Six years later	1	16	336	121							
Seven years later	1	16	342								
Eight years later	1	16									
Nine years later	1										
Current estimate of cumulative claims	1	16	342	121	9	197	26	23	13	53	801
Cumulative payments to date	-	(16)	(342)	(121)	(9)	(197)	(26)	(23)	-	-	(734)
Undiscounted unpaid liability	1	-	-	-	-	-	-	-	13	53	67
Undiscounted unpaid loss adjustment expense reserve											-
Total undiscounted unpaid claims liability											**67**
Discounting adjustment (includes Claim PFAD)											4
Total discounted unpaid claims liability											**71**

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

(in thousands of dollars)	Less than one year $	One to two years $	Two to three years $	Three to four years $	Four to five years $	Over five years $	Total $
December 31, 2013	13,739	10,994	8,137	5,511	3,804	12,699	54,884
December 31, 2012	13,565	10,410	7,796	4,738	4,177	14,404	55,090

Role of the actuary

The actuary is appointed to fulfill reporting requirements pursuant to the Insurance (Captive Company) Act of B.C. With respect to preparation of these consolidated financial statements, the actuary is required to carry out a valuation of the Fund's policy liabilities and to provide an opinion regarding their appropriateness at the date of the consolidated 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 analyzes the Fund's assets for their ability to support the amount of policy liabilities.

8. 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, 2013, no amounts have been drawn on the facilities (2012 - $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 2013 was 2.44% (2012 average rate - 2.39%). The Fund's net loan position of $19,400,316 (2012 - $16,198,052) 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 2013, interest revenue of $100,657 (2012 - $110,293) was received on the General Fund building loan and interest of $255,714 (2012 - $245,839) was paid on General Fund cash balances held by the Fund and $32,619 (2012 - $27,760) was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of $187,676 (2012 - $163,307).

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

9. Internally restricted net assets

The Benchers have allocated $17,500,000 (2012 - $17,500,000) of the net assets to the Part B defalcation coverage.

10. Regulatory requirements and capital management

The Captive is required to maintain a minimum of $200,000 in shareholder's equity and $100,000 in reserves under the regulations of the Insurance (Captive Company) Act of B.C. The Captive was in compliance with these regulations throughout the year and as at December 31, 2013.

11. Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2013, expenses of $148,040 (2012 - $101,190) were incurred by the Fund with these law firms.

12. Contingencies

During the 2011 year, a Tax Auditor for the Ministry of Finance informed the Captive that the Ministry contended that the annual assessments contributed by members to the Lawyers Insurance Fund constituted premiums payable to the Captive for purposes of the Insurance Premium Tax Act and that the Ministry proposed to adjust the Captive's net taxable premiums from 2005 to 2009 to reflect this. The proposed additional tax was $2 million. The Captive 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 Captive has disputed the Ministry's proposal and the Ministry of Finance has taken no further action to date. The Captive 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 Captive.