



**THE LAW SOCIETY
OF BRITISH COLUMBIA**

Financial Statements
December 31, 2016



Contents

3	Management Discussion and Analysis
6	General and Special Compensation Funds
6	Auditor's Report
8	Fund Statement of Financial Position
9	Fund Statement of Changes in Net Assets
10	Fund Statement of Revenue and Expenses
12	Fund Statement of Cash Flows
13	Notes to Fund Financial Statements
20	Lawyers Insurance Fund
20	Auditor's Report
22	Consolidated Fund Statement of Financial Position
23	Consolidated Fund Statement of Changes in Net Assets
24	Consolidated Fund Statement of Revenue and Expenses
25	Consolidated Fund Statement of Cash Flows
26	Notes to Consolidated Fund Financial Statements



Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through three separate funds: the General Fund, the Special Compensation Fund and the Lawyers Insurance Fund (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 2016 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 2016, in addition to the general oversight by the Benchers, the Finance and Audit Committee assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers and the Finance and Audit Committee included:

- Reviewing periodic financial statements of the General, Special Compensation and Consolidated Lawyers Insurance Fund
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Report prepared by the Law Society auditors
- Recommending the 2017 practice fees and insurance assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

General Fund

Overview

Overall, the 2016 results for the General Fund resulted in an operating surplus of \$4.9 million. Revenues were higher than expected, particularly in the areas of trust administration, electronic filing revenues, and practice fees. Operating expenses were similar to the prior year, but lower than expected due to savings in the areas of external counsel and professional fees.

Revenues

General Fund revenue was \$29.4 million, \$1.9 million higher than 2015 with growth in the number of lawyers and an increase in the 2016 practice fee. During 2016, net growth in the number of full-time equivalent practicing lawyers was 2.1% resulting in a total of 11,619 full fee paying equivalent lawyers for the year, compared to 11,378 in 2015. The trust administration fee revenue increased 12% due to an increase in the number of TAF-related transactions arising from greater activity in the real estate market. Electronic filing revenues increased due to an increase in the number of transactions, with increased real estate unit sales. Investment income increased due to higher cash balances held during the year. Discipline and custodianship recoveries increased over last year. Other income increased over 2015 as the result of increased PLTC grant revenues. Professional Legal Training Course (PLTC) enrolment revenue was slightly lower in 2016, with 470 PLTC students attending during the year. Application fees and rental revenue were very similar to their 2015 levels.

The Lawyers Insurance Fund contributed \$2.2 million to the General Fund for co-sponsored programs and for general program and administrative expenses attributable to operations.

Expenses

The 2016 General Fund expenses increased by \$240,000 (0.9%) to \$26.71 million, compared to \$26.47 million in 2015.

Bencher Governance expenses increased by \$60,000 compared to 2015 due to increased travel and meeting costs.

Communication, Publications and Information Services costs were very similar to 2015, with market based staff salary adjustments offset by savings in printing and mailing costs.



Management Discussion and Analysis

Education and Practice expenses were higher than 2015 by \$131,000, with market based staff salary adjustments offset by lower credentials external counsel fees.

General and administration costs decreased \$324,000 from 2015 with a significant reduction in human resource related external fees, staff professional development and skills training, offsetting increases for market based staff salary adjustments and insurance costs.

Policy and Legal Services expenses decreased \$132,000 over 2015, due to reduced external counsel fees for external litigation, offset by increases for market based staff salary adjustments.

Regulation operating expenses increased \$683,000 over 2015, due to higher external fees in the areas of discipline, professional conduct, and custodianships with higher file loads. Additionally, there were increases for market based staff salary adjustments.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2016, net assets in the General Fund were \$19.8 million. The net assets include \$2.6 million in capital funding for planned capital projects related to the 845 Cambie Street building and workspace improvements for Law Society operations. In addition, the net assets include \$4.8 million of trust administration reserves in accordance with approved reserve policies. The remaining General Fund net assets are \$12.4 million, of which \$11.0 million is invested in capital assets, mainly the 845 Cambie Street building, and \$1.4 million of working capital.

Special Compensation Fund

Overview

Previously, the Special Compensation Fund was maintained pursuant to Section 31 of the *Legal Profession Act*, was financed by members' annual assessments, and claims were recorded net of recoveries when they had been approved for payment. In 2012, the *Legal Profession Amendment Act, 2012* repealed section 31 of the *Legal Profession Act*. In addition, Section 23 of the *Legal Profession Act* was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. Section 50 of the *Legal Profession Amendment Act, 2012* provides for the transfer of unused reserves that remain within the Special Compensation Fund to the Lawyers Insurance Fund for the purposes of the insurance program, which has provided insurance coverage since 2004 for dishonest appropriation of money or other property entrusted to and received by insured lawyers. The transfer will occur when recoveries are received.

Revenues/Expenses

There were no claims costs in 2016 since the Lawyers Insurance Fund has been providing coverage for dishonest appropriation of funds by lawyers since 2004. During the year, \$75,000 was recovered along with \$29,000 in interest income. In addition, external counsel costs of \$91,000 were incurred for specific file activity.

Net Assets

At the end of 2016, the Special Compensation Fund net assets were \$1.36 million.



Lawyers Insurance Fund

Overview

The Lawyers Insurance Fund (LIF) remains in a strong financial position at the end of 2016. Revenue from annual assessments was slightly higher due to additional insured members, and overall investment returns were above the benchmark.

Revenues

The 2016 insurance assessment remained at \$1,750 per insured member, resulting in total revenue of \$14.7 million, compared to \$14.5 million in 2015.

During 2016, the long term investment portfolio performed well, earning a return of 7.1%, compared to a benchmark return of 6.0%. All increases in the market value of the investment portfolio have been recognized through the statement of revenue and expenses in accordance with Canadian accounting standards for not-for-profit organizations.

Expenses

In 2016, LIF general operating costs, including the \$2.2 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were \$6.7 million, compared to \$6.3 million in 2015. The increase is due to market based staff salary adjustments and increases in actuary and investment managers fees.

The net actuarial provision for settlement of claims for the year was \$22.9 million, an increase of \$7.0 million from 2015, based on an increase in the expected severity of claims in current and previous years. The provision for claims liabilities on the balance sheet at the end of 2016 was \$67.2 million, compared to \$59.5 million in 2015.

Net Assets

As of December 31, 2016, the LIF net assets were \$70.4 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$52.9 million in unrestricted net assets.

Other Matters

In 2014, the Law Society received inquiries from the Financial Institutions Commission ("FICOM") regarding insurance licensing issues pursuant to the *Financial Institutions Act* (British Columbia) and the *Insurance (Captive Company) Act*. Following discussions with FICOM, it was decided that the Law Society would pursue an exemption from certain statutory requirements. The exemption request to the Minister of Finance is proceeding and no decision has been made yet. It is our view that the outcome is likely to be favorable. In addition, discussions have continued with FICOM regarding structure options. The Law Society also sought an exemption from the *Insurance Premium Tax Act*. On May 19, 2016, Bill 14, the *Finance Statutes Amendment Act, 2016* received Royal Assent. The Act provided in section 28 for an exemption for members of the Law Society of British Columbia from premium taxes in respect of an insurance fee set under Section 30 (3) (a) of the *Legal Profession Act*. See note 14 of the Lawyers Insurance Fund financial statements for additional information regarding premium tax.



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

Fund Financial Statements

December 31, 2016



March 3, 2017

Independent Auditor's Report

To the Members of The Law Society of British Columbia

We have audited the accompanying fund financial statements of The Law Society of British Columbia - General and Special Compensation Funds, which comprise the fund statement of financial position as at December 31, 2016 and the fund 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 fund financial statements

Management is responsible for the preparation and fair presentation of these fund 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 fund 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 fund 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 fund financial statements are free from material misstatement.

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

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

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

*PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

Fund Financial Statements

December 31, 2016



Opinion

In our opinion, the fund 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, 2016 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 Professional Accountants



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

Fund Statement of Financial Position

As at December 31, 2016

	2016		2015	
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Assets				
Current assets				
Cash (note 2)	283,310	500	283,810	82,854
Unclaimed trust funds (note 2)	1,813,319	-	1,813,319	1,708,661
Accounts receivable and prepaid expenses (note 3)	1,981,603	-	1,981,603	1,710,747
Courthouse Libraries BC Fund (note 2)	728,535	-	728,535	676,415
Due from Lawyers Insurance Fund (note 8)	34,170,251	1,363,844	35,534,095	29,416,498
	38,977,018	1,364,344	40,341,362	33,595,175
Non-current assets				
Cambie Street property - net (note 4(a))	12,447,990	-	12,447,990	12,809,633
Other property and equipment - net (note 4(b))	784,659	-	784,659	815,034
Intangible assets - net (note 4(c))	412,701	-	412,701	405,745
	52,622,368	1,364,344	53,986,712	47,625,587
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (notes 2 and 5)	6,251,515	-	6,251,515	5,626,114
Liability for unclaimed trust funds (note 2)	1,813,319	-	1,813,319	1,708,661
Current portion of building loan payable (note 7)	500,000	-	500,000	500,000
Deferred revenue (note 2)	21,344,505	-	21,344,505	20,141,888
Deferred capital contributions	12,452	-	12,452	23,421
Courthouse Libraries BC Fund (note 2)	728,535	-	728,535	676,415
Deposits	55,605	-	55,605	57,605
	30,705,931	-	30,705,931	28,734,104
Building loan payable (notes 7 and 8)	2,100,000	-	2,100,000	2,600,000
	32,805,931	-	32,805,931	31,334,104
Net assets				
Unrestricted (note 6)	19,816,437	1,364,344	21,180,781	16,291,483
	52,622,368	1,364,344	53,986,712	47,625,587

Commitments (note 13)

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

Fund Statement of Changes in Net Assets
For the year ended December 31, 2016

	2016		2015	
	General Fund - Unrestricted \$	Special Compensation Fund - Unrestricted \$	Total \$	Total \$
Net assets - Beginning of year	14,939,196	1,352,287	16,291,483	12,949,359
Net excess of revenue over expenses for the year	4,877,241	12,057	4,889,298	3,342,124
Net assets - End of year (note 6)	19,816,437	1,364,344	21,180,781	16,291,483

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



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

Fund Statement of Revenue and Expenses

For the year ended December 31, 2016

	2016		2015 (note 14)	
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Revenue				
Practice fees	19,894,479	-	19,894,479	18,810,372
Trust administration fees	4,548,052	-	4,548,052	4,048,565
Enrolment fees	1,297,850	-	1,297,850	1,278,150
E-filing revenue	975,923	-	975,923	857,162
Fines, penalties and recoveries	495,076	75,000	570,076	422,529
Application fees	491,930	-	491,930	484,065
Investment income (note 8)	434,776	28,516	463,292	405,662
Other income	410,482	-	410,482	369,248
Rental revenue	885,328	-	885,328	874,171
	29,433,896	103,516	29,537,412	27,549,924
Expenses				
Bencher Governance				
Bencher, AGM and other committees	1,095,105	-	1,095,105	1,040,404
Communication, Executive Support and Information Services	313,176	-	313,176	308,299
Communications and Executive Support		-	-	
Information services	779,090	-	779,090	830,287
Education and Practice	1,384,297	-	1,384,297	1,331,343
Credentials		-		
Ethics	507,112	-	507,112	776,473
Member services	780,135	-	780,135	736,228
Membership assistance programs	238,750	-	238,750	226,668
Practice advice	621,051	-	621,051	700,851
Practice standards	647,772	-	647,772	586,450
Professional Legal Training Course and Education	1,737,835	-	1,737,835	1,637,013
General and Administrative				
Finance	1,002,955	-	1,002,955	1,033,784
Amortization of other property and equipment	447,316	-	447,316	485,382
General administration	1,396,463	-	1,396,463	1,295,515
Human resources	522,479	-	522,479	880,718
Records management and library	280,237	-	280,237	277,821
Policy and Legal Services				
Policy and tribunal counsel	1,714,282	-	1,714,282	1,743,010
External litigation and interventions	477,435	-	477,435	581,049
Unauthorized practice	300,506	-	300,506	299,667
Regulation				
Custodianship costs	1,466,532	-	1,466,532	1,388,499
Discipline	1,519,116	-	1,519,116	1,357,355
Professional conduct - intake and investigations	4,477,166	-	4,477,166	4,232,764
Forensic accounting	648,993	-	648,993	501,956
Trust assurance	2,130,578	-	2,130,578	2,078,965
Occupancy costs, net of tenant recoveries	2,220,927	-	2,220,927	2,139,580
Carried forward	26,709,308	-	26,709,308	26,470,081

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



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

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2016

	2016		2015 (note 14)
	General Fund \$	Special Compensation Fund \$	Total \$
Brought forward	26,709,308	-	26,709,308
Special Compensation Fund			
General and administrative costs	-	91,459	91,459
	26,709,308	91,459	26,800,767
Costs recovered from Special Compensation and Lawyers Insurance Funds			
Co-sponsored program costs	(862,284)	-	(862,284)
Program and administrative costs	(1,290,369)	-	(1,290,369)
	(2,152,653)	-	(2,152,653)
	24,556,655	91,459	24,648,114
Net excess of revenue over expenses for the year	4,877,241	12,057	4,889,298

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



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

Fund Statement of Cash Flows

For the year ended December 31, 2016

	2016		2015 (note 14)	
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Cash flows from operating activities				
Net excess of revenue over expenses for the year	4,877,241	12,057	4,889,298	3,342,124
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	833,522	-	833,522	882,500
Amortization of other property and equipment	243,220	-	243,220	259,515
Amortization of intangible assets	204,096	-	204,096	181,701
Amortization of deferred capital contributions	(10,970)	-	(10,970)	(10,970)
Loss on disposal of other property and equipment	13,363	-	13,363	26
	6,160,472	12,057	6,172,529	4,654,896
(Increase) decrease in current assets				
Unclaimed trust funds	(104,658)	-	(104,658)	72,206
Accounts receivable and prepaid expenses	(270,856)	-	(270,856)	(217,018)
Courthouse Libraries BC Fund	(52,120)	-	(52,120)	(107,848)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	625,402	-	625,402	(12,437)
Liability for unclaimed trust funds	104,658	-	104,658	(72,206)
Deferred revenue	1,202,617	-	1,202,617	1,335,017
Courthouse Libraries BC Fund	52,120	-	52,120	107,848
Deposits	(2,000)	-	(2,000)	(1,600)
	7,715,635	12,057	7,727,692	5,758,858
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	(698,087)	-	(698,087)	(1,282,819)
Purchase of intangible assets	(211,052)	-	(211,052)	(48,999)
	(909,139)	-	(909,139)	(1,331,818)
Interfund transfers	(6,105,540)	(12,057)	(6,117,597)	(3,955,337)
Decrease in cash	200,956	-	200,956	(28,297)
Cash - Beginning of year	82,354	500	82,854	111,151
Cash - End of year	283,310	500	283,810	82,854
Supplementary cash flow information				
Interest paid	54,902	-	54,902	64,900
Interest income received	427,221	28,516	455,737	409,888

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



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

Notes to Fund Financial Statements

December 31, 2016

1. Nature of operations

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

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

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

The Special Compensation Fund was maintained by the Society pursuant to Section 31 of the Legal Profession Act (the LPA). The Special Compensation Fund claims were recorded net of recoveries from the Special Compensation Fund's insurers when they 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 2016, the per member Special Compensation Fund assessment remained at \$nil (2015 - \$nil).

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

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

2. Significant accounting policies

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

Allocated administrative expenses

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

Courthouse Libraries BC Fund

The Society administers funds held on behalf of the Courthouse Libraries BC. Such funds are held in trust and the use of the funds is not recorded in the fund statement of revenue and expenses of the General Fund. The Society collects fees for the Courthouse Libraries BC through its fees per lawyer assessments.

Cash

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



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

Notes to Fund Financial Statements

December 31, 2016

Claims liabilities

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

Deferred capital contributions

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

Fair value of financial instruments

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

Intangible assets

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

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. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in the Lawyers Insurance Fund's investment portfolio.

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

Unclaimed trust funds

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

Use of estimates

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



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

Notes to Fund Financial Statements

December 31, 2016

3. Accounts receivable and prepaid expenses

Accounts receivable are presented net of the allowance for doubtful accounts of \$904,036 (2015 - \$827,024).

4. Property, equipment and intangible assets

a) 845 Cambie Street property

	2016		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	4,189,450	-	4,189,450
Buildings and equipment	15,005,200	8,092,997	6,912,203
Leasehold improvements	6,729,908	5,641,706	1,088,202
Tenant improvements	826,619	568,484	258,135
	26,751,177	14,303,187	12,447,990

	2015		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	4,189,450	-	4,189,450
Buildings and equipment	14,702,890	7,511,650	7,191,240
Leasehold improvements	6,559,576	5,456,422	1,103,154
Tenant improvements	826,619	500,830	325,789
	26,278,535	13,468,902	12,809,633

b) Other property and equipment

	2016		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Furniture and fixtures	2,639,295	2,120,809	518,486
Computer hardware	1,180,036	917,619	262,417
Artwork and collectibles	49,160	45,405	3,755
Law libraries - at nominal value	1	-	1
	3,868,492	3,083,833	784,659

	2015		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Furniture and fixtures	2,576,056	2,018,612	557,444
Computer hardware	1,210,609	956,775	253,834
Artwork and collectibles	49,160	45,405	3,755
Law libraries - at nominal value	1	-	1
	3,835,826	3,020,792	815,034



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

Notes to Fund Financial Statements

December 31, 2016

c) Intangible assets

	2016		
	Cost \$	Accumulated amortization \$	Net \$
Computer software	1,636,970	1,304,847	332,123
Website development	80,578	-	80,578
	<u>1,717,548</u>	<u>1,304,847</u>	<u>412,701</u>
	2015		
	Cost \$	Accumulated amortization \$	Net \$
Computer software	1,506,496	1,100,751	405,745
Website development	-	-	-
	<u>1,506,496</u>	<u>1,100,751</u>	<u>405,745</u>

In 2016, intangible assets with an aggregate amount of \$211,053 (2015 - \$48,999) were purchased.

5. Accounts payable and accrued liabilities

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

	2016 \$	2015 \$
Advocate	399,077	378,066
Courthouse Libraries BC	2,139,174	2,206,527
Lawyers Assistance Program	788,829	769,215
Pro bono	339,795	336,731
CanLII	578,197	449,474
Federation of Law Societies	502,745	277,435
Rural Education and Access to Lawyers	69,663	49,228

6. Unrestricted net assets

The General Fund unrestricted net assets include \$2,647,035 (2015 - \$2,011,184) which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$4,766,120 (2015 - \$2,650,024) which has been appropriated for future trust assurance expenses. During the year, \$4,548,052 (2015 - \$4,048,565) in trust administration fee revenue was collected, and \$2,431,956 (2015 - \$2,436,344) in trust assurance expenses were incurred.

The remaining General Fund net assets represent \$11,045,351 (2015 - \$10,930,412) invested in capital assets, and working capital of \$1,357,933 (2015 - (\$652,426)), combining for a total unrestricted net asset amount of \$12,403,284 (2015 - \$10,277,986).



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

Notes to Fund Financial Statements

December 31, 2016

	(in 000s)					2016	2015
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets - Beginning of year	10,930	(652)	10,278	2,650	2,011	14,939	11,614
Net (deficiency) excess of revenue over expenses	(1,294)	2,010	716	2,116	2,045	4,877	3,325
Repayment of building payable (note 7)	500	-	500	-	(500)	-	-
Purchase of capital assets (note 4)	909	-	909	-	(909)	-	-
Net assets - End of year	11,045	1,358	12,403	4,766	2,647	19,816	14,939

7. 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, B.C. The loan is secured by the buildings, has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. Interest paid on the building loan is disclosed in note 8. The outstanding building loan balance at year-end is \$2.6 million (2015 - \$3.1 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 2016, principal of \$500,000 (2015 - \$500,000) was repaid. The loan will be paid off in total by 2022.

	2016 %	2015 %
Weighted average rate of interest	2.09	2.07

8. 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 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, 2016 (2015 - \$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, 2016 (2015 - \$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 2016 was 2.09% (2015 - 2.07%). 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 2016, interest of \$54,902 was paid on the building loan and interest revenue of \$427,221 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$28,512 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$400,831.

During 2015, interest of \$64,900 was paid on the building loan and interest revenue of \$309,540 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$27,864 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$272,504.

Other interfund transactions are disclosed elsewhere in these Fund Financial Statements.



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

Notes to Fund Financial Statements

December 31, 2016

9. 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, 2016, 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 9(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, 2016, 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 2016, the Special Compensation Fund recovered \$nil (2015 - \$nil) related to the Wirick case.

10. 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, 2016, expenses of \$223,616 (2015 - \$232,515) recorded at carrying amount were incurred by the General Fund during the normal course of business with these law firms.

11. Capital management

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

12. Financial instruments

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

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

a) Credit risk

Cash and accounts receivable expose the Funds to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$2,063,503 (2015 - \$1,575,255). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.



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

Notes to Fund Financial Statements

December 31, 2016

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.

13. Obligations and commitments under operating leases

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

	\$
For the year ending December 31	
2017	8,715
2018	6,804
2019	3,402
2020	<u>-</u>
Total future minimum lease payments	<u>18,921</u>

For the year ended December 31, 2016, an amount of \$24,236 representing payments under operating leases was expensed (2015 - \$24,927).

14. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.



March 3, 2017

Independent Auditor's Report

To the Members of The Law Society of British Columbia

We have audited the accompanying consolidated fund financial statements of The Law Society of British Columbia - Lawyers Insurance Fund, and its subsidiary, which comprise the consolidated fund statement of financial position as at December 31, 2016 and the consolidated fund 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 fund financial statements

Management is responsible for the preparation and fair presentation of these consolidated fund 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 fund 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 fund 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 fund financial statements are free from material misstatement.

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

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

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

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Financial Statements

December 31, 2016



Opinion

In our opinion, the consolidated fund 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, 2016 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 Professional Accountants



The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Financial Position

As at December 31, 2016

	2016 \$	2015 \$
Assets		
Cash	28,661,761	24,279,287
Accounts receivable - net of allowance (note 3)	254,914	4,421,970
Prepaid expenses	30,937	47,441
Short-term investments (note 5)	4,201,359	3,936,524
Members' share of provision for claims	1,147,131	1,248,555
General Fund building loan (note 7)	2,600,000	3,100,000
Investments (note 6)	154,267,887	144,173,568
	<u>191,163,989</u>	<u>181,207,345</u>
Liabilities		
Accounts payable and accrued liabilities (notes 4 and 8)	1,825,625	1,163,740
Deferred revenue	7,461,217	7,330,710
Due to General Fund (note 10)	34,170,251	28,064,711
Due to Special Compensation Fund (note 10)	1,363,844	1,351,787
Provision for claims (note 9)	67,192,720	59,488,074
Provision for ULAE (note 9)	8,781,000	7,920,000
	<u>120,794,657</u>	<u>105,319,022</u>
Net assets		
Unrestricted net assets	52,869,332	58,388,323
Internally restricted net assets (note 11)	17,500,000	17,500,000
	<u>70,369,332</u>	<u>75,888,323</u>
	<u>191,163,989</u>	<u>181,207,345</u>
Commitments (note 10)		
Contingencies (note 14)		

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 – Lawyers Insurance Fund

Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2016

	2016		2015
	Unrestricted \$	Internally restricted \$	Total \$
Net assets - Beginning of year	58,388,323	17,500,000	75,888,323
(Deficiency) excess of revenue over expenses for the year	(5,518,991)	-	(5,518,991)
Net assets - End of year	52,869,332	17,500,000	70,369,332

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



The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2016

	2016 \$	2015 \$
Revenue		
Annual assessments	14,681,333	14,452,561
Investment income (note 6)	5,375,891	4,655,494
Other income	77,500	68,999
	<u>20,134,724</u>	<u>19,177,054</u>
Insurance expenses		
Actuary, consultant and investment manager fees	801,592	568,406
Allocated office rent from General Fund	291,417	246,271
Contribution to program and administrative costs of General Fund	1,292,210	1,349,551
Insurance	407,330	393,142
Office	533,629	347,922
Premium taxes	8,572	8,605
Provision for settlement of claims (note 9)	22,941,291	15,913,668
Provision for ULAE (note 9)	770,000	689,000
Salaries, wages and benefits	2,544,395	2,454,744
	<u>29,590,436</u>	<u>21,971,309</u>
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	862,284	925,039
	<u>30,452,720</u>	<u>22,896,348</u>
Deficiency of revenue over expenses before the following	(10,317,996)	(3,719,294)
Fair value changes in investments (note 6)	4,804,907	13,802,978
	(5,513,089)	10,083,684
Provision for income taxes	5,902	5,997
(Deficiency) excess of revenue over expenses for the year	<u>(5,518,991)</u>	<u>10,077,687</u>

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



The Law Society of British Columbia – Lawyers Insurance Fund

Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2016

	2016 \$	2015 \$
Cash flows from operating activities		
(Deficiency) excess of revenue over expenses for the year	(5,518,991)	10,077,687
Items not affecting cash		
Unrealized gain on investments	(2,619,395)	(1,469,755)
Realized gain on disposal of investments	(2,185,462)	(12,534,845)
Pooled distributions from investments	(5,612,436)	(4,737,893)
Amortization of 750 Cambie Street building	-	26,708
Amortization of deferred tenant inducement	-	34,423
	(15,936,284)	(8,603,675)
Decrease (increase) in assets		
Accounts receivable	4,167,056	(2,996,617)
Prepaid expenses	16,504	466,360
Short-term investments	(264,835)	(715,838)
Members' share of provision for claims	101,424	(56,820)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	661,885	(591,211)
Deferred revenue	130,507	132,382
Provision for claims	7,704,646	6,928,509
Provision for ULAE	861,000	689,000
	(2,558,097)	(4,747,910)
Cash flows from investing activities		
Decrease in General Fund building loan	500,000	500,000
Purchase of investments	(7,823,130)	(33,255,953)
Proceeds from disposal of investments	8,146,104	34,064,693
	822,974	1,308,740
Cash flows from financing activities		
Interfund transfers (note 10)	6,117,597	3,955,337
Increase in cash	4,382,474	516,167
Cash - Beginning of year	24,279,287	23,763,120
Cash - End of year	28,661,761	24,279,287
Supplementary cash flow information		
Interest paid	455,737	337,404
Interest income received	54,902	64,900

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



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

1. Nature of operations

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

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

The Lawyers Insurance Fund (the Fund) is maintained by the Society pursuant to Section 30 of the Legal Profession Act. The Captive is considered assessable for income tax under current legislation. The Captive is subject to regulation by the Financial Institutions Commission (FICOM). Effective January 1, 1990, the Fund underwrites 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	<u>5,000</u>	or	<u>10,000</u>
Limit per error or related errors			<u>1,000,000</u>
Annual aggregate limit for all errors per member			<u>2,000,000</u>

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. All losses on claims since 1997 are fully reimbursed by the Fund on behalf of the Society under agreement.

For the 2016 and 2015 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%.

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 2016 and 2015 policy years, there is a \$300,000 per claim limit and a \$17,500,000 profession-wide annual aggregate limit. The Society and the Captive have 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 2016 and 2015 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.

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



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

2. Significant accounting policies

These Consolidated Fund Financial Statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Basis of consolidation

These Consolidated Fund Financial Statements include the accounts of the Fund and the Captive, a wholly owned subsidiary.

Allocated administrative expenses

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

Cash

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

Deferred tenant inducements

In 2006, the Fund provided one of its tenants in the 750 Cambie Street building with free gross rent of \$384,868 at the start of the lease. This free gross rent is amortized over the term of the lease. The balance of the deferred tenant inducements of \$49,357 was written off when the property was sold in 2015.

Fair value of financial instruments

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

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

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

Short-term investments

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

Investments

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

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



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

Provision for claims

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

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 the consolidated fund 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 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, bond pooled funds and the investment in real estate mortgage indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$101,136,795 (2015 - \$98,296,244).

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

The cash deposits are held only with Schedule I banks. The accounts receivable balances are spread across the broad membership base with no significant exposure to any one individual. The 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, bond, real estate and mortgage fund investments.

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



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

As at December 31, 2016, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$15.4 million (2015 - \$14.4 million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2016, 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 \$66.3 million, or 55% (2015 - \$67.07 million, or 64%).

3. Accounts receivable

	2016 \$	2015 \$
Member deductibles	459,109	432,897
Allowance for doubtful accounts	(295,134)	(264,097)
Receivable for premium taxes under appeal (note 14)	12	4,131,398
GST/HST receivable	79,349	106,533
Taxes receivable	94	15,239
Other receivables	11,484	-
	<u>254,914</u>	<u>4,421,970</u>

4. Government remittances

The following government remittances are included in accounts payable:

	2016 \$	2015 \$
Ministry of Finance - PST	452	813
Receiver General - corporate income tax	-	969
Ministry of Finance - premium tax	8,572	8,374
	<u>9,024</u>	<u>10,156</u>

5. Short-term investments

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

	2016 \$	2015 \$
Money market funds	<u>4,201,359</u>	<u>3,936,524</u>

6. Investments

	2016 \$	2015 \$
Investments - at fair value	<u>154,267,887</u>	<u>144,173,568</u>



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

	2016			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	41,216,639	-	(594,967)	40,621,672
Equities				
Canadian Pooled Funds	21,233,972	14,256,017	-	35,489,989
International Pooled Funds	33,490,648	14,214,265	-	47,704,913
	54,724,620	28,470,282	-	83,194,902
Real Estate & Mortgage				
Real Estate Fund	14,521,175	860,268	-	15,381,443
Mortgage Fund	15,221,185	-	(151,315)	15,069,870
	29,742,360	860,268	(151,315)	30,451,313
	125,683,619	29,330,550	(746,282)	154,267,887
	2015			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	39,179,020	-	(13,998)	39,165,022
Equities				
Canadian Pooled Funds	19,022,670	10,079,833	-	29,102,503
International Pooled Funds	30,825,615	15,831,672	-	46,657,287
	49,848,285	25,911,505	-	75,759,790
Real Estate & Mortgage				
Real Estate Fund	14,508,072	76,102	-	14,584,174
Mortgage Fund	14,673,319	-	(8,737)	14,664,582
	29,181,391	76,102	(8,737)	29,248,756
	118,208,696	25,987,607	(22,735)	144,173,568

The effective yield on the Bond, Mortgages and Equities portion of the investment portfolio was 2.29% (2015 - 2.34%).



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

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

Investment income

	2016 \$	2015 \$
Interest on cash	143,498	151,091
Pooled distributions	5,638,747	4,799,721
Net interfund loan interest expense (note 10)	(400,835)	(272,504)
Building income - 750 Cambie Street (revenue of \$nil (2015 - \$172,427); net of expenses of \$5,519 (2015 - \$195,241))	<u>(5,519)</u>	<u>(22,814)</u>
Investment income	<u>5,375,891</u>	<u>4,655,494</u>

Fair value changes in investments

	2016 \$	2015 \$
Realized gain on disposal of investments	2,185,512	12,333,223
Unrealized gain on investments measured at fair value	<u>2,619,395</u>	<u>1,469,755</u>
Fair value changes in investments	<u>4,804,907</u>	<u>13,802,978</u>

7. General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, B.C. The loan has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the 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 2016, principal of \$500,000 (2015 - \$500,000) was repaid.

	2016 %	2015 %
Weighted average rate of return	<u>2.09</u>	<u>2.07</u>



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

8. Accounts payable and accrued liabilities

	2016 \$	2015 \$
Trade payables	1,590,314	823,736
Accrued trade expenses	226,287	329,952
Taxes payable	452	709
Premium taxes payable	8,572	8,374
Income taxes payable	-	969
	<u>1,825,625</u>	<u>1,163,740</u>

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

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

	2016 \$	2015 \$
Part A and Part C Insurance Coverage		
Provision for claims - Beginning of year	59,062,074	51,997,565
Provision for losses and expenses for claims occurring in the current year	17,944,208	16,208,000
Increase (decrease) in estimated losses and expenses for losses occurring in prior years	<u>4,530,000</u>	<u>(279,000)</u>
Provision for claims liability	<u>81,536,282</u>	<u>67,926,565</u>
Less:		
Payments on claims incurred in the current year	(1,013,274)	(947,153)
Payments on claims incurred in prior years	(14,401,094)	(8,054,034)
Recoveries on claims	473,230	79,876
Change in due to (from) members	<u>(101,424)</u>	<u>56,820</u>
Claim payments - net of recoveries	<u>(15,042,562)</u>	<u>(8,864,491)</u>
Provision for claims - End of year	66,493,720	59,062,074
Part B Insurance Coverage	<u>699,000</u>	<u>426,000</u>
Total provision for Parts A, B and C Insurance Coverage	<u>67,192,720</u>	<u>59,488,074</u>



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

The determination of the provision for unpaid claims and adjustment expenses requires the estimation of two major variables or quanta, being development of claims and the 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 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 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 fund statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 2.65 % (2015 - 2.50%). The Fund determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

A 1% increase in the discount rate will have a favourable impact on the discounted claims liability of \$2.272 million (2015 - \$1.914 million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.434 million (2015 - \$2.049 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):

	2016 \$	2015 \$
Undiscounted	69,081	60,825
Effect of present value	(5,678)	(4,479)
PFADs	11,423	9,814
Discounted	<u>74,826</u>	<u>66,160</u>



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

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 reconciles the cumulative claims to the amount appearing in the consolidated fund statement of financial position.

Part A (and C, from 2012 onwards) insurance claims (in thousands of dollars)

Claims year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	13,580	13,670	11,520	13,650	14,560	13,390	15,230	12,690	15,090	16,720	
One year later	14,980	13,230	11,310	12,990	13,550	13,080	15,100	12,390	16,590		
Two years later	15,250	13,470	11,500	12,610	11,570	11,970	17,780	12,240			
Three years later	14,940	13,360	13,470	13,210	10,920	10,690	20,300				
Four years later	14,820	13,170	13,960	13,920	11,100	10,490					
Five years later	14,610	13,060	14,540	15,190	11,810						
Six years later	16,190	12,780	14,240	14,900							
Seven years later	16,400	13,070	14,340								
Eight years later	16,190	13,270									
Nine years later	16,790										
Current estimate of cumulative claims	16,790	13,270	14,340	14,900	11,810	10,490	20,300	12,240	16,590	16,720	147,450
Cumulative payments to date	(15,839)	(12,059)	(12,664)	(12,032)	(8,708)	(6,313)	(12,942)	(4,179)	(4,271)	(1,030)	(90,037)
Undiscounted unpaid liability	951	1,211	1,676	2,868	3,102	4,177	7,358	8,061	12,319	15,690	57,413
Undiscounted unpaid liability in respect of 2006 and prior years											2,907
Undiscounted unallocated loss adjustment expense reserve											8,021
Total undiscounted unpaid claims liability											68,341
Discounting adjustment (includes Claim PFAD)											5,695
Total discounted unpaid claims liability											74,036



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

Part B insurance claims (in thousands of dollars)

Claims year	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	251	8	107	23	28	18	53	562	41	274	
One year later	250	7	196	19	24	13	82	500	184		
Two years later	274	9	197	22	23	12	100	421			
Three years later	322	9	197	26	23	13	115				
Four years later	353	9	197	26	23	8					
Five years later	375	9	197	26	25						
Six years later	121	9	197	27							
Seven years later	124	9	203								
Eight years later	124	10									
Nine years later	125										
Current estimate of cumulative claims	125	10	203	27	25	8	115	421	184	274	1,392
Cumulative payments to date	(121)	(10)	(197)	(26)	(24)	-	(100)	(161)	(63)	(43)	(745)
Undiscounted unpaid liability	4	-	6	1	1	8	15	260	121	231	647
Undiscounted unpaid liability in respect of 2005 and prior years											8
Undiscounted unallocated loss adjustment expense reserve											85
Total undiscounted unpaid claims liability											740
Discounting adjustment (includes Claim PFAD)											50
Total discounted unpaid claims liability											790

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, 2016	16,751	13,038	10,840	7,294	5,833	15,325	69,081
December 31, 2015	15,759	11,390	9,785	6,862	5,011	12,018	60,825



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

Role of the actuary

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

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

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

10. Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are administered by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at exchange amounts at the dates of the transactions. 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, 2016, no amounts have been drawn on the facilities (2015 - \$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 2016 was 2.09% (2015 - 2.07%). The Fund's net loan position of \$32,934,095 (2015 - \$26,316,498) 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 the year ended December 31, 2016, interest revenue of \$54,902 (2015 - \$64,900) was received on the General Fund building loan and interest of \$427,221 (2015 - \$309,540) was paid on General Fund cash balances held by the Fund and \$28,512 (2015 - \$27,864) was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$400,835 (2015 - \$272,504).

Other interfund transactions are disclosed elsewhere in these Consolidated Fund Financial Statements.

11. Internally restricted net assets

The Benchers have allocated \$17,500,000 (2015 - \$17,500,000) of the net assets to the Part B coverage for dishonest appropriation of trust funds or property.

12. Regulatory requirements and capital management

The Captive is required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves under the regulations of the Insurance (Captive Company) Act of B.C. The Captive was in compliance with these regulations throughout the year and as at December 31, 2016.

13. Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2016, expenses of \$74,923 (2015 - \$125,414) were incurred by the Fund with these law firms.



The Law Society of British Columbia – Lawyers Insurance Fund

Notes to Consolidated Fund Financial Statements

December 31, 2016

14. Contingencies

During the year ended December 31, 2011, the Ministry of Finance (the Ministry) informed the Captive that the Ministry contended that the annual assessments contributed by members to the Fund constituted premiums payable to the Captive for purposes of the Insurance Premium Tax Act and the Ministry proposed to adjust the Captive's net taxable premiums from 2005 to 2009 to reflect this. The Captive maintained that it is liable for premium tax only on amounts received by it from the Fund as a reimbursement of reinsurance premiums and general and administrative costs, and that premium tax has been paid in full. The Captive disputed the Ministry's proposal in 2011.

During 2014, the Ministry sent a notice of Revised Assessment to the Captive assessing it for premium taxes for 2008 to 2009, in the amount of \$1.087 million, which the Captive appealed. In 2015, the Ministry sent notices of Revised Assessment to the Captive assessing it for premium taxes for 2010 to 2014, amounting to a total of \$3.044 million. The Captive appealed all revised assessments.

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. The Captive did not consider the liability likely and a decision on the appeals had not yet been made. Accordingly, the payment of the revised assessments was posted to accounts receivable as they were expected to be refunded.

In 2016, the appeal was accepted and all of the premium tax reassessed and paid to Canada Revenue Agency (CRA) in 2014 and 2015 was refunded in full.

