

The Law Society  
*of British Columbia*

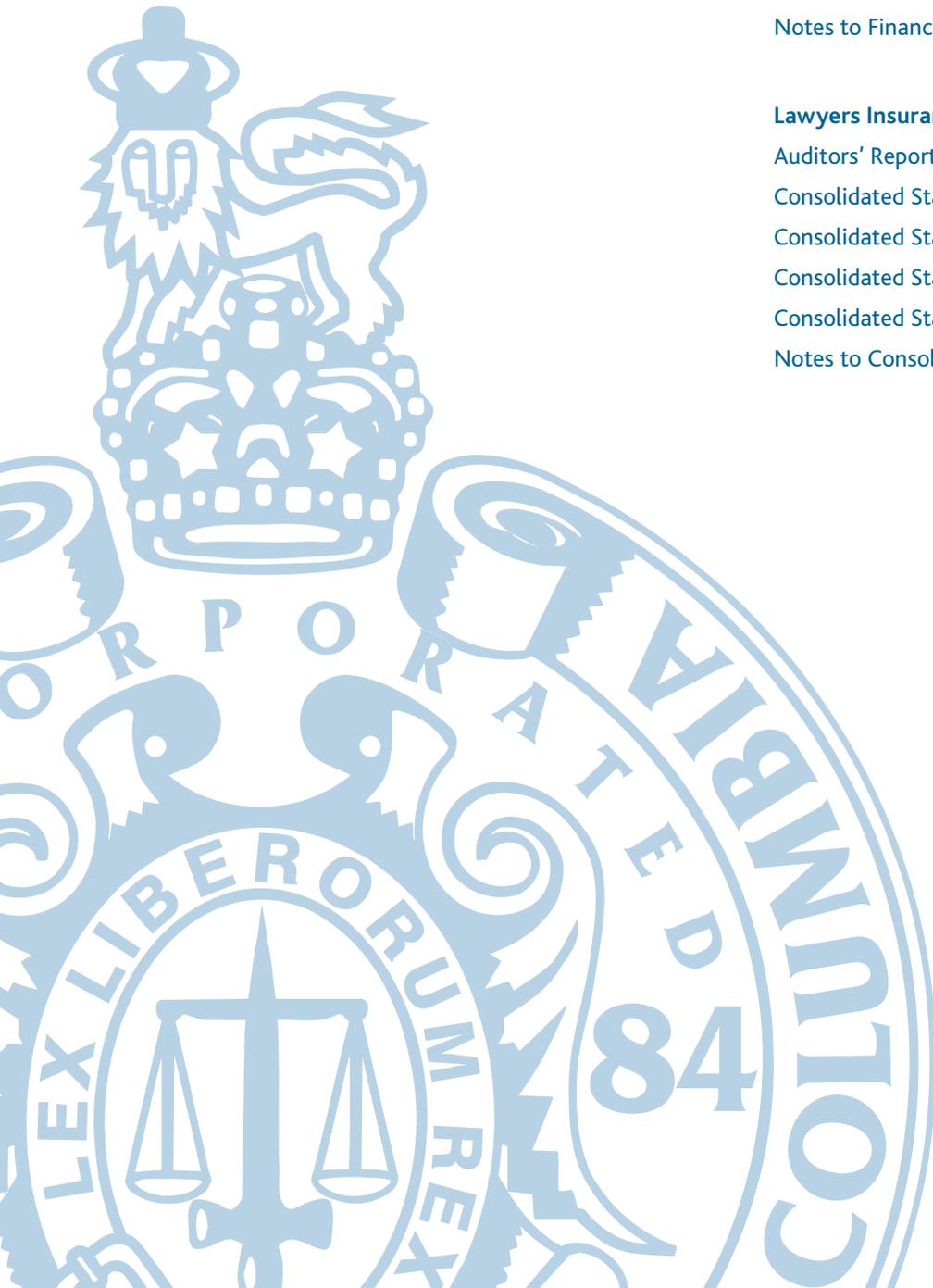


FINANCIAL STATEMENTS • DECEMBER 31, 2009



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## 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 to assist the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and appropriate accounting and internal controls are maintained. The 2009 audited financial statements for the three funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Canadian Institute of Chartered Accountants.

During 2009, in addition to the general oversight of the Benchers, the Finance Committee and the Audit Committee assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers, the Finance Committee and the Audit Committee included:

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

### General Fund

#### Summary of Financial Performance

Overall, in 2009 the General Fund had a modest operating surplus of \$515,922, slightly ahead of budget due to higher than expected revenues.

#### Revenues

General Fund revenue increased from \$19.5 million in 2008 to \$20.4 million in 2009. Practice fee revenue generated most of the increase, due to growth in the number of lawyers and an increase in the practice fee. The number of practicing lawyers increased 2% to 10,200 and the Law Society portion of the practice fee increased by \$70.50 to \$1,384.00. Greater recoveries from discipline fines and penalties generated an additional \$135,000 in revenue over 2008. Offsetting these increases was a decline of \$200,000 in trust administration fees (TAF), to \$2.4 million for the year. As expected, TAF transactions were lower than 2008 but revenue increased in the second half with better than expected economic conditions and an increase in real estate transactions. Professional Legal Training Course (PLTC) enrolment fees were stable with over 400 PLTC students during the year. With a continuing focus on cash management, income from the investment of practice fees and other revenue remained relatively stable at \$948,000 for the year. E-filing and application fees were similar to 2008 levels.

Net operating revenue from the Law Society building at 845 Cambie Street increased from \$140,000 to \$252,000 due to additional lease renewal revenue and lower interest expense as the building loan is repaid.

#### Expenses

General Fund expenses in 2009 were \$22.1 million, compared to \$19.7 million in 2008. The main areas of change were an increased focus on regulatory demands, including an increase in external counsel fees, audit and investigation costs, trust administration costs, and market salary adjustments for the overall organization.

Under the Bencher Governance expense category, expenses increased due to Bencher initiatives related to key strategic priorities, such as 125<sup>th</sup> Anniversary tour and publications, a legal needs survey, public forums, and public educational initiatives. The Benchers approved increasing the Federation of Law Societies contribution to support a number of key Federation priorities. Pro Bono funding increased due to the Benchers' commitment to provide stable Pro Bono funding through the Law Foundation with a 1% allocation of the practice fee.

The cost of providing Communications and Information Services support increased in 2009 due to extraordinary Bencher elections and market-based salary adjustments for staff. In addition, expenses for executive support were reallocated from the Policy and Legal Services expenses.

Education and Practice expenses increased due to the implementation of Continuing Professional Development for the profession and additional support for Practice Standards. Offsetting this, there was a decrease in PLTC costs in comparison to last year due to 2008 severance costs.

General and Administrative costs were up due to recruiting costs, salary benchmarking and enhanced professional development costs.

Policy and Legal Services expenses decreased due to the reallocation of costs for executive support while external litigation costs were higher in 2009 due to a greater number of interventions and a major case during the year.

Overall, Regulation costs increased due to a focus on improving delivery on our main regulatory mandate. Audit and investigations costs were higher due to an increase in necessary Rule 4-43 investigations during the year and restructuring costs. Custodianship expenses were higher due to market-based salary adjustments and the temporary increase in staffing costs due to the return of a long term disability leave. Trust administration costs reflect the full implementation of the program and more compliance audits during the year, with over 430 completed.

#### Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2009, net assets in the General fund were \$5.6 million which is well in excess of the Bencher-prescribed minimum surplus.

## Special Compensation Fund

### Summary of Financial Performance

During 2009, the Special Compensation Fund was able to eliminate the deficit incurred to fund the Wirick claims.

### Revenues

The Special Compensation Fund was funded through a \$150 assessment from each practising lawyer in 2009, resulting in total revenue of \$1.5 million. The assessment was used to pay claims and related administrative costs of the Special Compensation Fund, and to eliminate the deficit.

### Expenses

Due to the discretionary nature of the Special Compensation Fund, the Law Society does not set a claims reserve. All claim expenses are shown as an expense in the year incurred, net of any recoveries from the insurer or the lawyer against whom the claim is made. During the year, \$2.6 million in cost recoveries related to the Wirick claims were received, fully offsetting the claims and administrative costs incurred within the Fund.

### Net Assets

Claims and administrative costs paid in the past five years, the majority of which were attributable to the Wirick claims, were funded by an existing insurance policy, by the Special Compensation Fund assessments and by funds borrowed from the Lawyers Insurance Fund. The amount borrowed created a deficit in the Special Compensation Fund which has now been paid down by Special Compensation Fund assessments. In 2009, the Special Compensation Fund had a net asset balance of \$364,000 at year end.

As at December 31, 2009, there were 13 claims for a total of \$800,000 for which statutory declarations have been received and which will be reviewed by the Special Compensation Fund committee in the future.

## Lawyers Insurance Fund

### Summary of Financial Performance

During 2009, the net assets of the Lawyers Insurance Fund increased by \$8.8 million, to \$42.8 million.

### Revenues

The LIF assessment was \$1,400 per insured member in 2009, resulting in total revenue of \$10.4 million, compared to \$10.3 million in 2008.

During 2009, the Benchers determined that the Fund's long term investment portfolio would be managed by two investment managers to diversify risk and improve returns. This resulted in the appointment of two new investment managers in the first half of 2009, with each investment manager taking on approximately one-half of the long term investment portfolio. With the transfer of investment assets to the new investment managers during the first half of the year, there was a realization of losses of \$3.7 million related to the market downturn. For the remainder of the year, the value of the investment portfolio increased by \$13.7 million, which has been recognized as unrealized gains in the statement of changes in net assets. The long term investment portfolio earned a positive return of 14.7%, compared to a benchmark return of 12.8%.

### Expenses

The LIF insurance expenses (excluding claims payments and ULAE) for 2009 were \$4.4 million, compared to \$4.1 million in 2008. This increase reflects market-based salary adjustments and an increased contribution to the program and administrative costs of the General Fund.

The 2009 provision for settlement of claims was \$8.8 million, very similar to 2008. The provision for claims on the balance sheet at the end of 2009 was \$57.4 million, compared to \$58.3 million in 2008.

### Net Assets

As of December 31, 2009, the LIF net assets were \$42.8 million, an increase of \$8.8 million mainly due to the increase in market value of the investments portfolio during 2009.

# The Law Society of British Columbia - General and Special Compensation Funds Financial Statements

December 31, 2009

April 26, 2010

## Auditors' Report

To the Members of  
The Law Society of British Columbia

We have audited the statement of financial position of **The Law Society of British Columbia - General and Special Compensation Funds** as at December 31, 2009 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2009 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Statement of Financial Position**

As at December 31, 2009

			2009	2008
	General Fund	Special Compensation Fund	Total	Total
	\$	\$	\$	\$
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	2,580	500	3,080	77,740
Unclaimed trust funds (note 2)	1,439,573	-	1,439,573	1,286,299
Accounts receivable and prepaid expenses (note 3)	1,056,084	-	1,056,084	822,220
B.C. Courthouse Library Fund (note 2)	723,667	-	723,667	625,149
Due from Lawyers Insurance Fund (notes 5 and 9)	16,371,427	2,753,596	19,125,023	17,928,662
Interfund balances (note 9)	(2,324)	2,324	-	-
	19,591,007	2,756,420	22,347,427	20,740,070
<b>Property, equipment and intangible assets - net (note 4)</b>				
Cambie Street property	11,886,079	-	11,886,079	12,147,702
Other property and equipment	1,027,768	-	1,027,768	992,309
Intangible assets	410,999	-	410,999	327,470
	32,915,853	2,756,420	35,672,273	34,207,551
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	4,281,934	7,700	4,289,634	4,306,828
Liability for unclaimed trust funds	1,439,573	-	1,439,573	1,286,299
Current portion of building loan payable (note 8)	500,000	-	500,000	500,000
Current portion of claims payable (note 10)	-	1,885,882	1,885,882	1,885,882
Deferred revenue (notes 2 and 5)	14,688,185	498,587	15,186,772	15,963,452
Deferred capital contributions (notes 2 and 6)	92,508	-	92,508	103,145
B.C. Courthouse Library Grant (note 2)	723,667	-	723,667	625,149
Deposits	15,000	-	15,000	15,500
	21,740,867	2,392,169	24,133,036	24,686,255
<b>Building loan payable</b> (notes 8 and 9)	5,600,000	-	5,600,000	6,100,000
<b>Claims payable</b> (note 10)	-	-	-	1,885,882
	27,340,867	2,392,169	29,733,036	32,672,137
<b>Net assets</b>				
Unrestricted	5,574,986	364,251	5,939,237	1,535,414
	32,915,853	2,756,420	35,672,273	34,207,551

**Claims** (note 10)

Approved by

  
 President

  
 Chair of Audit Committee

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Statement of Changes in Net Assets**

For the year ended December 31, 2009

			2009	2008
	General Fund - Unrestricted \$	Special Compensation Fund - Unrestricted \$	Total \$	Total \$
<b>Net assets (deficit) - Beginning of year</b>	5,059,064	(3,523,650)	<b>1,535,414</b>	(4,622,161)
Net excess of revenue over expense for the year	515,922	3,887,901	<b>4,403,823</b>	6,157,575
<b>Net assets - End of year (note 7)</b>	<b>5,574,986</b>	<b>364,251</b>	<b>5,939,237</b>	<b>1,535,414</b>

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Statement of Revenue and Expense**

For the year ended December 31, 2009

			2009	2008
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Revenue</b>				
Practice fees	14,580,684	-	14,580,684	13,631,098
Annual assessments	-	1,551,933	1,551,933	3,554,150
Trust administration fees	2,436,237	-	2,436,237	2,612,887
Enrolment fees	999,100	-	999,100	1,011,383
Interest and other income	948,443	-	948,443	982,997
E-filing revenue	647,907	-	647,907	649,443
Fines and penalties	378,401	-	378,401	244,282
Application fees	361,915	-	361,915	368,865
	20,352,687	1,551,933	21,904,620	23,055,105
<b>Expenses</b>				
Bencher Governance				
Bencher, AGM and other committees	1,179,162	-	1,179,162	926,413
Federation of Law Societies' contribution	210,857	-	210,857	151,415
CanLII's contribution	312,165	-	312,165	300,810
Pro Bono contribution	146,640	-	146,640	134,685
Communication and Information Services				
Communications and publications	998,508	-	998,508	842,100
Information services	1,125,395	-	1,125,395	1,004,686
Education and Practice				
Credentials	404,065	-	404,065	405,441
Ethics	102,337	-	102,337	98,290
Member services	534,577	-	534,577	461,721
Membership assistance programs	168,493	-	168,493	166,705
Practice advice	491,064	-	491,064	457,211
Practice standards	499,785	-	499,785	426,745
Professional Legal Training Course and Education	1,744,681	-	1,744,681	1,924,606
General and Administrative				
Accounting	685,890	-	685,890	624,730
Amortization of other property, plant and equipment	486,020	-	486,020	486,368
General administration	1,370,131	-	1,370,131	1,338,373
Human resources	743,457	-	743,457	548,576
Records management and library	239,473	-	239,473	211,174
Policy and Legal Services				
Policy and tribunal counsel	1,128,369	-	1,128,369	1,155,904
External litigation and interventions	671,157	-	671,157	400,655
Unauthorized practice	172,894	-	172,894	178,785
Regulation				
Audit and investigation	1,814,277	-	1,814,277	1,420,842
Custodianship costs	1,529,221	-	1,529,221	1,185,207
Discipline and professional conduct	3,671,958	-	3,671,958	3,442,088
Trust administration	1,681,150	-	1,681,150	1,361,935
Carried forward	22,111,726	-	22,111,726	19,655,465

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Statement of Revenue and Expense ...continued**

For the year ended December 31, 2009

			2009	2008
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
Brought forward	22,111,726	-	22,111,726	19,655,465
Special Compensation Fund				
Claims and costs (note 10)	-	(2,580,429)	(2,580,429)	(1,189,855)
General and administrative costs	-	249,533	249,533	411,074
Loan interest to Lawyers Insurance Fund (note 9)	-	(5,072)	(5,072)	4,326
	22,111,726	(2,335,968)	19,775,758	18,881,010
<b>Costs recovered from Special Compensation and Lawyers Insurance Funds</b>				
Co-sponsored program costs	(638,152)	-	(638,152)	(610,484)
Program and administrative costs	(1,385,117)	-	(1,385,117)	(1,232,915)
	20,088,457	(2,335,968)	17,752,489	17,037,611
<b>Excess of revenue over expenses before the following</b>	264,230	3,887,901	4,152,131	6,017,494
<b>845 Cambie net results</b>				
Rental revenue	461,880	-	461,880	406,164
Allocated rental revenue (note 2)	1,369,492	-	1,369,492	1,374,426
	1,831,372	-	1,831,372	1,780,590
<b>Expenses</b>				
Amortization	454,569	-	454,569	477,692
Insurance	78,939	-	78,939	69,346
Loan interest expense (note 8)	255,350	-	255,350	352,870
Property management salaries	212,862	-	212,862	175,355
Property taxes	380,701	-	380,701	343,275
Repair and maintenance	402,190	-	402,190	388,902
Utilities	129,572	-	129,572	134,561
Recovery from tenants	(334,503)	-	(334,503)	(301,492)
	1,579,680	-	1,579,680	1,640,509
<b>Net operating revenue</b>	251,692	-	251,692	140,081
<b>Net excess of revenue over expense for the year</b>	515,922	3,887,901	4,403,823	6,157,575

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Statement of Cash Flows**

For the year ended December 31, 2009

			2009	2008
	General Fund \$	Special Compensation Fund \$	Total \$	Total \$
<b>Cash flows from operating activities</b>				
Net excess of revenue over expense for the year	515,922	3,887,901	4,403,823	6,157,575
Items not affecting cash				
Amortization of Cambie Street building and tenant improvements	454,569	-	454,569	477,692
Amortization of other property and equipment	335,396	-	335,396	333,458
Amortization of intangible assets	150,624	-	150,624	152,910
Loss on disposal of capital assets	-	-	-	2,597
	1,456,511	3,887,901	5,344,412	7,124,232
Decrease (increase) in current assets				
Unclaimed trust funds	(153,274)	-	(153,274)	(136,571)
Accounts receivable and prepaid expenses	(233,864)	-	(233,864)	367,869
B.C. Courthouse Library Fund	(98,518)	-	(98,518)	(107,803)
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	24,431	(41,625)	(17,194)	(801,821)
Liability for unclaimed trust funds	153,274	-	153,274	136,571
Deferred revenue	198,183	(974,863)	(776,680)	(688,933)
Deferred capital contributions	(10,637)	-	(10,637)	17,808
B.C. Courthouse Library Grant	98,518	-	98,518	107,803
Deposits	(500)	-	(500)	(20,000)
Decrease in claims payable	-	(1,885,882)	(1,885,882)	(1,885,882)
	1,434,124	985,531	2,419,655	4,113,273
<b>Cash flows from financing activities</b>				
Decrease in long-term debt - net	(500,000)	-	(500,000)	(500,000)
<b>Cash flows from investing activities</b>				
Property, plant and equipment additions - net	(797,954)	-	(797,954)	(806,978)
<b>Interfund transfers</b>	(210,830)	(985,531)	(1,196,361)	(2,781,023)
<b>(Decrease) increase in cash and cash equivalents</b>	(74,660)	-	(74,660)	25,272
<b>Cash and cash equivalents - Beginning of year</b>	77,240	500	77,740	52,468
<b>Cash and cash equivalents - End of year</b>	2,580	500	3,080	77,740
<b>Supplementary cash flow information</b>				
Interest paid	255,350	-	255,350	357,196
Interest income	418,769	5,072	423,841	495,544

# The Law Society of British Columbia - General and Special Compensation Funds

## Notes to Financial Statements

December 31, 2009

### 1. Nature of operations

The General Fund comprises the assets, liabilities, net assets, revenue and expense of the operations of The Law Society of British Columbia (the Society) other than those designated to the statutory Special Compensation Fund and the Lawyers Insurance Fund (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 to reimburse persons who sustain a pecuniary loss as a result of the misappropriation or wrongful conversion by a member of the Society of money or other property entrusted to or received by the member in his or her capacity as a barrister or solicitor. The Special Compensation Fund is financed by members' annual assessments, and claims are recorded net of recoveries from the Special Compensation Fund's insurers when they have been approved for payment by the Special Compensation Fund Committee as delegated by the Benchers and the settlement has been accepted by the claimant. The Legal Profession Act provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

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

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

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

### 2. Significant accounting policies

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

#### Allocated administrative expenses

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

#### Allocated rental revenue

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

#### B.C. Courthouse Library Fund

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

#### Cash and cash equivalents

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

#### Claims liabilities

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

#### Comparative figures

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

#### Deferred capital contributions

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

#### Fair value of financial instruments

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

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

#### Financial instruments

All financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized directly in net assets.

#### Intangible assets

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

### Property and equipment

Property and equipment, including leasehold improvements, are recorded at cost less accumulated amortization.

The Society provides for amortization on a straight-line basis as follows:

Buildings	2-1/2% per annum
Computer hardware	20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum

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

### Revenue recognition

The Society follows the deferral method of accounting for annual fees and assessments. Fees and assessments are billed and received in advance on a calendar-year basis. Accordingly, fees and assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

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

### Unclaimed trust funds

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

### Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

### New accounting pronouncements

#### *Financial Instruments - Recognition and Measurement*

Effective January 1, 2009, the Society adopted the new provisions of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments - Recognition and Measurement* relating to the accounting for debt instruments held as investments. This section requires the reversal of impairment losses relating to available-for-sale debt instruments when, in a subsequent year, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of this standard has no impact on the financial statements.

#### *Financial Instruments - Credit Risk and Fair Value*

Effective January 1, 2009, the Society adopted Emerging Issues Committee (EIC) Abstract EIC-173, *Credit Risk* and the *Fair Value of Financial Assets and Liabilities*, which was issued by the Accounting Standards Board (AcSB). The abstract clarifies how the credit risk of a counterparty or an entity's own credit risk should be taken into account in the measurement, presentation and disclosure of the fair value of financial assets and liabilities. The adoption of this standard has no impact on the financial statements.

#### *Financial Statement Presentation by Not-For-Profit Organizations*

Effective January 1, 2009, the Society adopted retrospectively the changes to the recommendations in CICA Handbook Section 4400, *Financial Statement Presentation by Not-For-Profit Organizations*, that eliminate the requirement to separately disclose the amount of net assets invested in capital assets. The Society has therefore eliminated from the financial statements details about the amount of net assets invested in capital assets and the calculation of this amount. As a result, the Society has reclassified \$7,225,625 (2008 - \$6,868,260) from net assets invested in capital assets to unrestricted net assets.

#### *Disclosure of Allocated Expenses by Not-For-Profit Organizations*

Effective January 1, 2009, the Society adopted retrospectively CICA Handbook Section 4470, *Disclosure of Allocated Expenses by Not-For-Profit Organizations*, which requires an organization to disclose its allocation policy, if it classifies expenses by function and allocates some of its general support costs to another function. The adoption of this standard has no material impact on the financial statements.

#### *Financial Statement Concepts*

Effective January 1, 2009, the Society adopted retrospectively the changes to the recommendations in CICA Handbook Section 1000, *Financial Statement Concepts*. This standard clarifies that items that do not meet the definition of an asset or a liability may not be recognized on the statement of financial position. The adoption of this standard has no impact on the financial statements.

## 3. Accounts receivable

Accounts receivable are presented net of the allowance for doubtful accounts of \$660,608 (2008 - \$873,037).

**The Law Society of British Columbia - General and Special Compensation Funds**  
**Notes to Financial Statements**

December 31, 2009

**4. Property, equipment and intangible assets**

(a) 845 Cambie Street property

			2009	2008
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,189,450	-	4,189,450	4,189,450
Buildings	11,585,302	5,066,903	6,518,399	6,744,119
Leasehold improvements	5,155,381	3,983,540	1,171,841	1,204,783
Tenant improvements	1,103,252	1,096,863	6,389	9,350
	22,033,385	10,147,306	11,886,079	12,147,702

(b) Other property and equipment

			2009	2008
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Furniture and fixtures	2,642,387	1,866,614	775,773	743,830
Computer hardware	1,030,770	778,776	251,994	248,478
Law libraries - at nominal value	1	-	1	1
	3,673,158	2,645,390	1,027,768	992,309

(c) Intangible assets

			2009	2008
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Computer software	1,772,973	1,361,974	410,999	327,470

**5. Deferred revenue**

As at December 31, 2009, fees and assessments of \$15.2 million (2008 - \$16.0 million) related to the subsequent year were received and recorded as deferred revenue. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in the Lawyers Insurance Fund's investment portfolio.

**6. Deferred capital contributions**

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

	2009 \$	2008 \$
Balance - Beginning of year	103,145	85,337
Received from the Law Foundation of British Columbia	-	28,446
	103,145	113,783
Less: Amortization for the year	10,637	10,638
Balance - End of year	92,508	103,145

**7. Unrestricted net assets**

The General Fund unrestricted net assets include \$126,810 (2008 - \$979,126) which has been appropriated for contribution to future trust administration fee related expenses. During the year, \$2.4 million (2008 - \$2.6 million) in trust administration fee revenue was collected, and \$3.3 million (2008 - \$2.7 million) in trust administration fee expenses were incurred, consisting of expenses related to trust assurance and audit.

## 8. Building loan payable

In 1992, the Benchers authorized the lending of monies from the Lawyers Insurance Fund to fund the capital development of the Society's buildings at 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 noted in note 9. The outstanding building loan balance at the end of the 2009 year is \$6.1 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 2009, principal of \$500,000 (2008 - \$500,000) was repaid.

	2009 %	2008 %
Weighted average rate of interest	4.08	4.97

## 9. Interfund transactions

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

Amounts due to and from the Lawyers Insurance Fund are due on demand and have no fixed terms of repayment. The Lawyers Insurance Fund has authorized a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan. The Lawyers Insurance Fund has also authorized a loan facility of up to \$8 million to the Special Compensation Fund.

Monthly interest on the Lawyers Insurance Fund's net loan position with the General and Special Compensation Funds is paid at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Insurance Fund investment portfolio. The average bond yield for 2009 was 4.08% (2008 - average rate - 4.97%). 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 2009, interest of \$255,350 was paid on the building loan and interest revenue of \$355,431 was received from General Fund cash balances held by the Lawyers Insurance Fund and \$5,072 was received from Special Compensation Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$105,153. During 2008, interest of \$352,870 was paid on the building loan and \$4,326 was paid on the Special Compensation Fund loan facility and interest revenue of \$394,539 was received from General Fund cash balances held by the Lawyers Insurance Fund for a net interest income of \$37,343.

Other interfund transactions are disclosed elsewhere in these financial statements.

## 10. Special Compensation Fund claims

### 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, 2009, there were 13 claims amounting to approximately \$0.8 million for which statutory declarations had been received. In addition, there were potential claims amounting to approximately \$1.9 million for which no statutory declarations had been received. All claims for which statutory declarations are received will be reviewed by the Special Compensation Fund Committee in due course. These amounts do not include an estimate for claims attributable of which the Society is unaware.

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

### Wirick case

In May 2002, the Discipline Committee ordered an audit investigation, pursuant to Rule 4-43, of Martin Keith Wirick's practice. Since then, the Society has continued to investigate the various claims attributed to Mr. Wirick's practice activities. Information continues to be received to assist in the investigation of claims. The Benchers are updated as required.

At December 31, 2009, there were eight claims still under consideration with total reported losses of \$700,000.

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

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

In 2009, the Special Compensation Fund recovered \$2.6 million (2008 - \$1.5 million) related to the Wirick case.

## 11. Related parties

The Benchers are drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2009, expenses of \$72,309 (2008 - \$138,346) were incurred by the General Fund during the normal course of business.

## The Law Society of British Columbia - Lawyers Insurance Fund Consolidated Financial Statements

As at December 31, 2009

April 26, 2010

### Auditors' Report

To the Members of  
The Law Society of British Columbia

We have audited the consolidated statement of financial position of **The Law Society of British Columbia - Lawyers Insurance Fund** as at December 31, 2009 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

**The Law Society of British Columbia - Lawyers Insurance Fund**  
**Consolidated Statement of Financial Position**

As at December 31, 2009

	2009 \$	2008 \$
<b>Assets</b>		
Cash and cash equivalents	20,573,241	20,945,176
Accounts receivable	297,973	183,184
Prepaid expenses	50,119	23,650
Reinsurers' share of provision for claims (note 1)	1,739,001	738,828
Members' share of provision for claims	1,220,723	1,390,167
General Fund building loan (note 4)	6,100,000	6,600,000
Investments (note 3)	105,081,808	94,137,660
	<b>135,062,865</b>	<b>124,018,665</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,689,998	648,968
Deferred revenue	6,001,244	5,283,324
Due to General Fund (note 6)	16,371,427	16,156,866
Due to Special Compensation Fund (note 6)	2,753,596	1,771,796
Provision for claims (note 5)	57,370,303	58,314,918
Provision for ULAE (note 5)	8,073,000	7,881,000
	<b>92,259,568</b>	<b>90,056,872</b>
<b>Net assets</b>		
Unrestricted net assets	25,303,297	16,461,793
Internally restricted net assets (note 7)	17,500,000	17,500,000
	<b>42,803,297</b>	<b>33,961,793</b>
	<b>135,062,865</b>	<b>124,018,665</b>
Commitments (note 6)		

Approved by

  
 President

  
 Chair of Audit Committee

**The Law Society of British Columbia - Lawyers Insurance Fund**  
**Consolidated Statement of Changes in Net Assets**

For the year ended December 31, 2009

			2009	2008
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
<b>Net assets - Beginning of year</b>	16,461,793	17,500,000	<b>33,961,793</b>	48,307,417
Deficiency of revenue over expense for the year	(4,819,723)	-	<b>(4,819,723)</b>	(7,165,315)
Unrealized gains (losses) on available-for-sale financial assets arising during the year	10,289,233	-	<b>10,289,233</b>	(15,941,755)
Realized loss (gain) on disposal of investments recognized in the statement of revenue and expense	3,371,994	-	<b>3,371,994</b>	(340,296)
Other than temporary impairment of investments recognized in the statement of revenue and expense	-	-	-	9,101,742
Net change in unrealized gains and losses on available-for-sale financial assets	13,661,227	-	<b>13,661,227</b>	(7,180,309)
<b>Net assets - End of year</b>	<b>25,303,297</b>	<b>17,500,000</b>	<b>42,803,297</b>	<b>33,961,793</b>

**The Law Society of British Columbia - Lawyers Insurance Fund**  
**Consolidated Statement of Revenue and Expense**

For the year ended December 31, 2009

	2009 \$	2008 \$
<b>Revenue</b>		
Annual assessments	10,427,679	10,265,064
Investment loss (note 3)	(1,234,116)	(4,604,706)
Other income	49,947	45,086
	<b>9,243,510</b>	<b>5,705,444</b>
<b>Insurance expense</b>		
Actuary, consultant and investment manager fees	388,828	327,273
Allocated office rent from General Fund	116,100	122,119
Contribution to program and administrative costs of General Fund	1,388,580	1,235,997
Office	533,029	474,076
Premium taxes	12,365	10,552
Provision for settlement of claims (note 5)	8,808,851	8,843,166
Provision for (recovery of) ULAE (note 5)	186,167	(637,875)
Salaries, wages and benefits	1,987,820	1,883,693
	<b>13,421,740</b>	<b>12,259,001</b>
<b>Loss prevention expense</b>		
Contribution to co-sponsored program costs of General Fund	638,152	610,484
	<b>14,059,892</b>	<b>12,869,485</b>
<b>Deficiency of revenue over expense before the following</b>	<b>(4,816,382)</b>	<b>(7,164,041)</b>
<b>Income tax expense</b>	<b>3,341</b>	<b>1,274</b>
<b>Deficiency of revenue over expense for the year</b>	<b>(4,819,723)</b>	<b>(7,165,315)</b>

**The Law Society of British Columbia - Lawyers Insurance Fund**  
**Consolidated Statement of Cash Flows**

For the year ended December 31, 2009

	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Deficiency of revenue over expense for the year	(4,819,723)	(7,165,315)
Items not affecting cash		
Realized loss (gain) on disposal of investments	3,371,994	(340,296)
Amortization of 750 Cambie Street building	443,175	463,112
Amortization of deferred tenant inducement	43,984	43,984
Other than temporary impairment of investments	-	9,101,742
	(960,570)	2,103,227
Decrease (increase) in assets		
Accounts receivable	(114,789)	(28,846)
Accrued interest receivable	-	987
Income taxes receivable	-	5,950
Prepaid expenses	(26,469)	20,627
Reinsurers' share of provision for claims	(1,000,173)	574,016
Due from members	169,444	106,228
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	1,041,030	(472,159)
Deferred revenue	717,920	260,335
Provision for claims	(944,615)	(3,772,272)
Provision for ULAE	192,000	(637,875)
	(926,222)	(1,839,782)
<b>Cash flows from investing activities</b>		
Purchase of investments	(78,401,366)	(18,886,590)
Proceeds of disposal of investments	77,259,292	20,949,019
Decrease in General Fund building loan	500,000	500,000
	(642,074)	2,562,429
<b>Interfund transfers (note 6)</b>	<b>1,196,361</b>	<b>2,781,023</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(371,935)</b>	<b>3,503,670</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>20,945,176</b>	<b>17,441,506</b>
<b>Cash and cash equivalents - End of year</b>	<b>20,573,241</b>	<b>20,945,176</b>
<b>Supplementary cash flow information</b>		
Interest paid	360,503	394,539
Interest income	257,743	370,487

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2009

### 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.

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

The Society's members have current coverage as follows:

#### Part A

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

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

For claims reported between 1990 and 1996, the Captive entered into reinsurance contracts under which all claim payments above a per claim limit and in excess of inner aggregate retentions were ceded to reinsurers. Reinsurance does not relieve the Captive of primary liability as the originating insurer. The Captive has not entered into reinsurance contracts for claims reported since January 1, 1997. All losses on claims since 1997 are fully reimbursed, as a deductible, by the Society under agreement.

#### Part B

For the 2009 policy period, there is a \$300,000 per claim limit and a \$17,500,000 profession-wide annual aggregate limit. The Fund has obtained insurance in the amount of \$5,000,000 to cover a portion of the annual aggregate limit. This insurance is subject to a \$3,000,000 deductible and is co-insured such that amounts over the deductible are 80% covered by the co-insured to a maximum of \$5,000,000, with the remaining 20% covered by the Fund.

### 2. Significant accounting policies

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

#### Basis of consolidation

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

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

#### Allocated administrative expenses

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

#### Amortization

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

Building - 750 Cambie Street	2-1/2% per annum
Base building - improvements	2-1/2% per annum
Tenant improvements	over lease period
Deferred tenant inducements	over lease period

#### Cash and cash equivalents

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

#### Deferred tenant inducements

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

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2009

### Fair value of financial instruments

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

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

### Investments

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

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

### Investment income

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

### Provision for claims

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

### Reinsurance

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

### Revenue recognition

The Fund follows the deferral method of accounting for annual assessments. Assessments are billed and received in advance on a calendar-year basis. Accordingly, assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year.

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

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The determination of the provisions for claims and unallocated loss adjustment expenses and the reinsurers' share of the provision for claims involves significant estimation. Actual results could differ from those estimates and the differences could be material.

### Financial instruments

All financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale, and all financial liabilities, other than actuarial liabilities, are classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with changes in fair value recognized in the statement of revenue and expense. Financial assets classified as held-to-maturity or as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Available-for-sale financial assets are measured at fair value with changes in unrealized gains and losses recognized in net assets.

### New accounting pronouncements

#### *Financial Instruments - Recognition and Measurement*

Effective January 1, 2009, the Fund adopted the new provisions of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments - Recognition and Measurement* relating to the accounting for debt instruments held as investments. This section requires the reversal of impairment losses relating to available-for-sale debt instruments when, in a subsequent year, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of this standard has no impact on the financial statements.

#### *Financial Instruments - Credit Risk and Fair Value*

Effective January 1, 2009, the Fund adopted Emerging Issues Committee (EIC) Abstract EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which was issued by the Accounting Standards Board (AcSB). The abstract clarifies how the credit risk of a counterparty or an entity's own credit risk should be taken into account in the measurement, presentation and disclosure of the fair value of financial assets and liabilities. The adoption of this standard has no impact on the financial statements.

#### *Financial Statement Presentation by Not-For-Profit Organizations*

Effective January 1, 2009, the Society adopted retrospectively the changes to the recommendations in CICA Handbook Section 4400, *Financial Statement*

*Presentation by Not-For-Profit Societies* that eliminate the requirement to separately disclose the amount of net assets invested in capital assets. The adoption of this standard has no impact on the financial statements.

*Disclosure of Allocated Expenses by Not-For-Profit Organizations*

Effective January 1, 2009, the Society adopted retrospectively CICA Handbook Section 4470, *Disclosure of Allocated Expenses by Not-For-Profit Organizations*, which requires an organization to disclose its allocation policy, if it classifies expenses by function and allocates some of its general support costs to another function. The adoption of this standard has no impact on the financial statements.

*Financial Statement Concepts*

Effective January 1, 2009, the Society adopted retrospectively the changes to the recommendations in CICA Handbook Section 1000, *Financial Statement Concepts*. This standard clarifies that items that do not meet the definition of an asset or a liability may not be recognized on the consolidated statement of financial position. The adoption of this standard has no impact on the financial statements.

### 3. Investments

	2009 \$	2008 \$
Investments - at fair value	92,062,594	80,631,286
750 Cambie Street Building	13,019,214	13,506,374
	<b>105,081,808</b>	94,137,660

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

The effective yield on the investment portfolio is 2.81% (2008 - 2.42%).

2008				
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	38,297,629	-	-	38,297,629
Equity				
Canadian Pooled Funds	15,420,337	-	-	15,420,337
U.S. Pooled Funds	14,764,234	-	-	14,764,234
Non-North America Pooled Funds	12,149,086	-	-	12,149,086
	42,333,657	-	-	42,333,657
	80,631,286	-	-	80,631,286

#### Investment risk management

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

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

# The Law Society of British Columbia - Lawyers Insurance Fund

## Notes to Consolidated Financial Statements

December 31, 2009

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

### Credit risk

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

### Market risk

Market risk is the potential for loss to the Fund from changes in the value of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices.

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

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

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. At December 31, 2009, the sum of the Fund's cash and investment balances exceeded the sum of the liabilities by \$33.4 million, or 37%.

### Investment loss

	2009 \$	2008 \$
Interest on cash and cash equivalents	2,393	13,291
Pooled distributions	1,971,079	3,944,672
Net interfund loan interest expense (note 6)	(105,153)	(37,343)
Realized (loss) gain on disposal of investments	(3,371,994)	340,296
Building income - 750 Cambie Street (revenue of \$1,550,700; net of expenses of \$1,281,141)	269,559	236,120
Other than temporary impairment of investments	-	(9,101,742)
Net investment loss	<b>(1,234,116)</b>	<b>(4,604,706)</b>

### 750 Cambie Street Building

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

			2009	2008
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Land	4,299,850	-	4,299,850	4,299,850
Building	4,971,376	688,654	4,282,722	4,408,684
Base building improvements	3,219,651	406,453	2,813,198	2,895,928
Tenant improvements	2,388,412	995,889	1,392,523	1,627,006
Deferred tenant inducements	408,705	177,784	230,921	274,906
	15,287,994	2,268,780	<b>13,019,214</b>	13,506,374

## 4. General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, B.C. The loan is secured by the building, has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Fund'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 2009, principal of \$500,000 (2008 - \$500,000) was repaid.

	2009 %	2008 %
Weighted average rate of return	<b>4.08</b>	4.97

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

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

	2009 \$	2008 \$
Part A Insurance Coverage		
Provision for claims - Beginning of year	57,923,411	61,504,190
Provision for losses and expenses for claims occurring in the current year	11,776,000	13,857,000
Decrease in estimated losses and expenses for losses occurring in prior years	<b>(3,114,000)</b>	<b>(4,872,000)</b>
Provision for claims liability	<b>66,585,411</b>	70,489,190
Less:		
Payments on claims incurred in the current year	<b>(879,023)</b>	(1,136,864)
Payments on claims incurred in prior years	<b>(9,816,083)</b>	(11,398,584)
Recoveries on claims	166,507	604,669
Change in reinsurers' share of recovery of claims	960,000	(541,000)
Change in due from members	<b>(143,334)</b>	(94,000)
Claim payments - net of recoveries	<b>(9,711,933)</b>	(12,565,779)
Provision for claims - End of year	<b>56,873,478</b>	57,923,411
Part B Insurance Coverage		
	<b>496,825</b>	391,507
<b>Total provision for Part A and B Insurance Coverage</b>	<b>57,370,303</b>	58,314,918

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

The provision for unpaid claims and adjustment expenses and related reinsurer's share is an estimate subject to variability, and the variability, as with any insurance company, could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in severity or frequency of claims from historical trends, the timing of claims payments, the recoverability of reinsurance, and future rates of investment return. The estimates are principally based on the Fund's historical experience. Methods of estimation have been used that the Society believes produce reasonable results given current information.

The provision for unallocated loss adjustment expenses (ULAE) is an actuarially determined estimate of the Fund's future costs relating to the administration of claims and potential claims reported up to the statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 4.14% (2008 - 4.3%). The Fund determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

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

### Role of the actuary

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

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

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

## The Law Society of British Columbia - Lawyers Insurance Fund Notes to Consolidated Financial Statements

December 31, 2009

### 6. Interfund transactions

The operations of the Fund, the General Fund and the Special Compensation Fund are controlled by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at fair values at the dates of the transactions. Surplus funds are invested in the 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.

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 2009 was 4.08% (2008 average rate - 4.97%). The Fund's net loan position includes the General Fund building loan, other operating balances with the General Fund and the loan with the Special Compensation Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Fund to finance ongoing operations.

During 2009, interest revenue of \$255,350 was received on the General Fund building loan, interest of \$355,431 was paid on the General Fund cash balances held by the Fund and \$5,072 was paid on the Special Compensation Fund cash balances held by the Fund for a net interest expense of \$105,153. During 2008, interest revenue of \$352,870 was received on the General Fund building loan and interest of \$394,539 was paid on General Fund cash balances held by the Fund and \$4,326 was received on Special Compensation Fund cash balances held by the Fund for a net interest expense of \$37,343.

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

### 7. Internally restricted net assets

The Benchers have allocated \$17,500,000 (2008 - \$17,500,000) of the net assets to the Part B defalcation coverage.

### 8. Regulatory requirements

The Captive is required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves under the regulations of the Insurance (Captive Company) Act of B.C. The Captive was in compliance with these regulations as at December 31, 2009.

### 9. Related parties

The Benchers are drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2009, expenses of \$223,360 (2008 - \$81,874) were incurred by the Fund during the normal course of business.

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