

Law Society
of British Columbia

Financial Statements
2023

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2023 Audited Financial Statements - Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through two separate funds: the General Fund and the Lawyers Indemnity Fund. 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 2023 audited financial statements for the two funds are set out in this report. The statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

During 2023 in addition to the general oversight by the Benchers, the Finance and Audit Committee assisted the Benchers in ensuring that management 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 and Consolidated Lawyers Indemnity 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
- Reviewing the reporting from the Law Society's actuary on the provision for settlement of indemnity claims
- Recommending the 2024 practice fees and indemnity assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

General Fund

Overview

Overall, the 2023 results for the General Fund resulted in an operating surplus of \$2.2 million. Revenues were higher than last year, particularly with higher interest income, partially offset by a decrease in trust administration fees and electronic filing revenue. Operating expenses increased over the prior year primarily due to market based salary adjustments, an increase in travel and meeting costs, increased license fees for the online learning platform, and fewer staff vacancies compared to last year.

Revenues

General Fund revenue was \$38.4 million, \$0.4 million (1%) higher than 2022 primarily due to higher practice fees due to the growth in the number of lawyers and higher interest income.

Net growth in 2023 in the number of full-time equivalent practicing lawyers was 3.2% resulting in a total of 14,279 full fee-paying equivalent lawyers for the year, compared to 13,834 in 2022, with a resulting increase in practice fee revenue of \$880,000.

Throughout 2023, the Bank of Canada rate continued to be at a high level which resulted in additional interest revenue of \$940,000 compared to 2022.

These increases in revenue were partially offset by lower trust administration fees and e-filing revenues as a result of a lower number of trust account transactions mainly due to a 9% decrease in real estate unit sales compared to last year.

Enrollment fees were \$1.9 million, a decrease of \$130,000 from 2022 due to a decrease in PLTC students (644 students in 2023 compared to 686 in 2022).

The Lawyers Indemnity Fund contributed \$2.9 million to the General Fund for co-sponsored program costs and for general program and administrative expenses attributable to operations.

Expenses

The 2023 General Fund expenses increased by \$2.6 million (7%) to \$39.5 million, compared to \$36.9 million in 2022.

Bencher Governance and Support expenses increased by \$255,000 over 2022 mainly due to an increase in travel and meeting costs with more in person meetings held in the year.

Communications costs decreased by \$67,000 over 2022 mainly due to decreased staffing costs.

Information Services costs increased \$99,000 over 2022 due to increased software maintenance expenses, along with general wage increases.

Education and Practice expenses were \$670,000 higher than 2022 due to increased licensing fees for the online learning platform, along with general wage increases and increased staffing costs.

General and administration costs increased \$752,000 over 2022 due to higher staffing costs, and increased insurance, travel and meeting expenses.

Policy and Legal Services expenses increased \$195,000 over 2022, mainly due to general wage increases and increased staffing costs.

Regulation operating expenses increased \$572,000 over 2022 due to increased staffing costs and general wage increases, partially offset by lower external counsel fees.

Occupancy costs in 2023 were \$90,000 higher than in 2022 due to higher building management and janitorial expenses, offset by lower property taxes and utilities.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2023, net assets in the General Fund were \$38.9 million. The net assets include \$3.9 million in capital funding for planned capital projects related to the maintenance of the 845 Cambie Street building and workspace improvements for Law Society operations. Pursuant to reserve policy, during the year \$430,000 of net assets were transferred from the Lawyers Indemnity Fund to top up the net

assets for trust assurance. After this transfer, at December 31, 2023, the net assets include \$1.9 million of trust assurance net assets. The remaining General Fund net assets are \$33.1 million, of which \$13.3 million is invested in capital assets and \$19.8 million is working capital.

Lawyers Indemnity Fund

Overview

The Lawyers Indemnity Fund remains in a strong financial position at the end of 2023. Revenue from annual assessments was \$400,000 higher than 2022 due to additional covered members. The provision for claims was significantly lower than 2022 due to reduction in the prior years' reserve for unpaid claims. For expenses, cyber insurance costs increased \$200,000 over the prior year and other operating expenses were as expected.

Revenues

The 2023 indemnity assessment was \$1,800 per full-time lawyer, resulting in total revenue of \$18.0 million, compared to \$17.6 million in 2022.

During 2023, the long-term investment portfolio earned a return of 8.6% compared to the benchmark return of 10.7%. Returns were at or above the market in most asset classes, except foreign equities, real estate and mortgage funds. All of the increases and decreases 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 2023, the Lawyers Indemnity Fund general operating costs, not including claims payments and unallocated loss adjustment expenses (ULAE), were \$10.9 million, compared to \$10.3 million in 2022. The increase is mainly due to general wage increases and increased cyber insurance costs.

The net actuarial provision for settlement of claims for the year was \$7.5 million, a decrease of \$11.2 million from 2022. The 2023 claims provision was lower than 2022 due to a decrease in reserve for unpaid claims from prior years. The provision for claims liabilities on the Balance Sheet at the end of 2023 was \$72.8 million, compared to \$79.4 million at the end of 2022.

Net Assets

As of December 31, 2023, LIF net assets were \$148.9 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$131.4 million in unrestricted net assets.

The Law Society of British Columbia – General Fund

Fund Financial Statements
December 31, 2023



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia – General Fund (the Fund) as at December 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Fund's financial statements comprise:

- the fund statement of financial position as at December 31, 2023;
- the fund statement of changes in net assets for the year then ended;
- the fund statement of revenue and expenses for the year then ended;
- the fund statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP
Central City Tower, 13450 102nd Avenue, Suite 1400, Surrey, British Columbia, Canada V3T 5X3
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Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting



a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Surrey, British Columbia
April 26, 2024

The Law Society of British Columbia – General Fund

Fund Statement of Financial Position

As at December 31, 2023

	2023 \$	2022 \$
Assets		
Current assets		
Cash (note 2)	28,491,695	30,944,861
Unclaimed trust funds (note 2)	2,234,157	2,154,389
Accounts receivable and prepaid expenses (note 3)	2,345,946	2,289,313
Short-term loan receivable (note 5)	-	535,161
Due from Lawyers Indemnity Fund (note 8)	16,243,677	11,733,076
	<u>49,315,475</u>	<u>47,656,800</u>
Non-current assets		
Cambie Street property – net (note 4 (a))	10,780,747	10,105,846
Other property and equipment – net (note 4 (b))	1,580,896	1,386,668
Intangible assets – net (note 4 (c))	905,910	731,051
	<u>62,583,028</u>	<u>59,880,365</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	6,161,012	5,879,060
Liability for unclaimed trust funds (note 2)	2,234,157	2,154,389
Deferred revenue (note 2)	15,267,681	15,128,809
Deposits	57,706	58,255
	<u>23,720,556</u>	<u>23,220,513</u>
Net assets		
Unrestricted net assets (note 7)	<u>38,862,472</u>	<u>36,659,852</u>
	<u>62,583,028</u>	<u>59,880,365</u>
Commitments		

Approved by



President



Chair of Finance and Audit Committee

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

The Law Society of British Columbia – General Fund

Fund Statement of Changes in Net Assets

For the year ended December 31, 2023

	2023 \$	2022 \$
Net assets – Beginning of year	36,659,852	33,724,395
Net excess of revenue over expenses for the year	<u>2,202,620</u>	<u>2,935,457</u>
Net assets – End of year (note 7)	<u>38,862,472</u>	<u>36,659,852</u>

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

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses

For the year ended December 31, 2023

	2023 \$	2022 \$
Revenue		
Practice fees	27,872,539	26,995,959
Trust administration fees	3,123,698	4,050,288
Enrolment fees	1,878,625	2,009,425
E-filing revenue	859,971	1,232,147
Fines, penalties and recoveries	622,022	689,663
Application fees	717,873	775,518
Investment income (note 8)	1,726,367	767,725
Other income	555,332	422,507
Rental revenue	1,009,641	1,053,235
	<hr/> 38,366,068	<hr/> 37,996,467
Expenses		
Bencher governance and support	1,390,133	1,134,893
Communications and publications	691,850	758,670
Information services	2,270,264	2,171,397
Education and practice		
Credentials	941,306	822,619
Licensee services	1,054,689	955,136
Licensee assistance programs	93,330	73,320
Practice advice	1,132,721	1,037,427
Practice standards	445,119	405,758
Professional legal training course and education	3,455,537	3,158,818
General and administrative		
Finance	1,574,968	1,429,572
Amortization of other property and equipment	575,618	540,823
General administration	2,244,325	1,743,660
Human resources	796,577	792,190
Records management and library	391,960	325,596
Policy and legal services		
Policy, ethics and tribunal counsel	2,772,957	2,467,904
External litigation and interventions	261,603	356,252
Unauthorized practice	307,307	322,700
Regulation		
Custodianship costs	2,098,795	1,997,009
Discipline	2,901,965	3,408,682
Professional conduct – intake and investigations	7,526,359	6,900,391
Forensic accounting	823,340	759,102
Trust assurance	3,240,232	2,953,641
Occupancy costs, net of tenant recoveries	2,482,715	2,393,067
	<hr/> 39,473,670	<hr/> 36,908,627
Carried forward		

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2023

	2023 \$	2022 \$
Brought forward	39,473,670	36,908,627
Costs recovered from Lawyers Indemnity Fund		
Co-sponsored program costs	(1,226,051)	(1,110,747)
Program and administrative costs	(1,654,171)	(1,506,870)
	(2,880,222)	(2,617,617)
	36,593,448	34,291,010
Excess of revenue over expenses before contribution to Lawyers Indemnity Fund	1,772,620	3,705,457
Contribution (to) from Lawyers Indemnity Fund (note 7)	430,000	(770,000)
Net excess of revenue over expenses for the year	2,202,620	2,935,457

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

The Law Society of British Columbia – General Fund

Fund Statement of Cash Flows

For the year ended December 31, 2023

	2023 \$	2022 \$
Cash provided by (used in)		
Operating activities		
Net excess of revenue over expenses for the year	2,202,620	2,935,457
Items not affecting cash		
Amortization of Cambie Street building and tenant improvements	1,074,104	976,791
Amortization of other property and equipment	424,905	387,859
Amortization of intangible assets	150,712	152,964
Loss on disposal of other property and equipment	16,443	167
Contributions (from) to Lawyers Indemnity Fund	(430,000)	770,000
	<u>3,438,784</u>	<u>5,223,238</u>
(Increase) decrease in current assets		
Unclaimed trust funds	(79,769)	(3,138)
Accounts receivable and prepaid expenses	(56,633)	2,911
Short-term loan receivable (note 5)	535,161	-
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	281,952	448,139
Liability for unclaimed trust funds	79,769	3,138
Deferred revenue	138,872	522,044
Deposits	(550)	850
	<u>4,337,586</u>	<u>6,197,182</u>
Financing activities		
Decrease in building loan payable	-	(100,000)
Interfund transfers	(4,080,600)	(6,332,174)
	<u>(4,080,600)</u>	<u>(6,432,174)</u>
Investing activities		
Purchase of property and equipment	(2,384,582)	(400,766)
Purchase of intangible assets	(325,570)	(398,209)
	<u>(2,710,152)</u>	<u>(798,975)</u>
Decrease in cash	(2,453,166)	(1,033,967)
Cash – Beginning of year	<u>30,944,861</u>	<u>31,978,828</u>
Cash – End of year	<u>28,491,695</u>	<u>30,944,861</u>
Supplementary cash flow information		
Interest income received	<u>1,733,234</u>	<u>796,535</u>

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

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

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 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 Lawyers Indemnity Fund. This includes collecting revenues associated with practice fees, trust administration fees, enrolment 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 licensees to act within the rules of professional conduct for lawyers.

Effective from May 1, 2004, Part B to the B.C. Lawyers' Compulsory Professional Liability Indemnification Policy provides defined indemnity 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. Part B (Trust Protection Coverage) is recorded in the Lawyers Indemnity Fund.

The Society's Lawyers Indemnity Fund is presented separately in consolidated fund financial statements, including the Society's wholly owned BC Lawyers' Indemnity Association (BCLIA). The Lawyers Indemnity Fund underwrites the program by which errors and omissions indemnity is provided to licensees of the Society. The Lawyers Indemnity Fund's consolidated fund financial statements provide further detail on the various indemnity 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 the Lawyers Indemnity Fund. Recoveries are based on amounts derived either on percentage of use, the proportion of the Lawyers Indemnity Fund's staff compared to the Society's total staff costs, or a set amount.

Cash

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

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.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

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 and website development. Software and website development are recorded at cost and amortized on a straight-line basis at 10% – 20% per annum for software and at 20% for website development.

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
Building – envelope	7% per annum
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 practice 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 a high interest savings account periodically.

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

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

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 as 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.

3 Accounts receivable and prepaid expenses

Accounts receivable are presented net of the allowance for doubtful accounts of \$1,061,612 (2022 – \$1,420,775).

4 Property, equipment and intangible assets

a) 845 Cambie Street property

	2023		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Land	4,189,450	-	4,189,450
Buildings and equipment	17,742,524	12,805,872	4,936,652
Leasehold improvements	8,832,221	7,189,036	1,643,185
Tenant improvements	478,404	466,944	11,460
	31,242,599	20,461,852	10,780,747

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

	2022		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Land	4,189,450	-	4,189,450
Buildings and equipment	17,237,493	12,125,853	5,111,640
Leasehold improvements	7,725,118	6,954,742	770,376
Tenant improvements	826,619	792,239	34,380
	29,978,680	19,872,834	10,105,846
b) Other property and equipment			
	2023		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Furniture and fixtures	3,764,678	2,778,964	985,714
Computer hardware	1,930,163	1,338,738	591,425
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	5,744,003	4,163,107	1,580,896
	2022		
	Cost	Accumulated	Net
	\$	amortization	\$
	\$	\$	\$
Furniture and fixtures	3,565,813	2,606,884	958,929
Computer hardware	1,834,069	1,410,087	423,982
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	5,449,044	4,062,376	1,386,668

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

c) Intangible assets

	2023		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Computer software	2,418,534	1,643,047	775,487
Website development	280,420	149,997	130,423
	2,698,954	1,793,044	905,910
			2022
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	
Computer software	2,164,491	1,511,968	652,523
Website development	208,892	130,364	78,528
	2,373,383	1,642,332	731,051

5 Short-term loan receivable

In 2018, the Society agreed to participate with other Canadian law societies in a collective loan of \$2 million to the Canadian Legal Information Institute (CanLII), a wholly owned subsidiary of the Federation of Law Societies of Canada (FLSC). The loan is part of the financing for the purchase by CanLII of Lexum, a corporation providing support services to CanLII for the implementation of CanLII's legal information website. The Law Society's participation in this loan was \$276,390 in 2018. Part of the Society's support of this transaction are annual repayable capital payments of \$89,079 in 2019, \$86,257 in 2020 and \$83,435 in 2021 to the vendors of Lexum as provided in a Subordination and Commitment Agreement. Amounts advanced under this agreement earn interest at the same rate as the amount advanced under the collective loan. In 2023, the Society's total participation in this loan was \$535,161 (2022 – \$535,161). The loan had a five-year term ending February 23, 2023 with an annual interest rate of 4.74%, payable annually. The interest earned in the current year relating to the loan was \$6,867 (2022 – \$28,810). Repayment of the loan was made in May 2023.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

6 Accounts payable and accrued liabilities

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

	2023 \$	2022 \$
Advocate	233,858	235,472
Courthouse Libraries BC	2,137,156	2,151,626
Lawyers Assistance Program	578,296	605,575
Pro bono	223,430	211,474
CanLII	301,491	280,351
Federation of Law Societies	177,310	210,560

7 Unrestricted net assets

The General Fund unrestricted net assets include \$3,886,268 (2022 – \$4,802,827), which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$1,880,000 (2022 – \$1,866,856), which has been appropriated for future trust assurance expenses. During the year, \$3,123,698 (2022 – \$4,050,288) in trust administration fee revenue was collected and \$3,540,232 (2022 – \$3,254,681) in trust assurance expenses were incurred.

Pursuant to the reserve policy, \$430,000 of the net assets was transferred from the Lawyers Indemnity Fund to Trust Assurance in 2023 (2022 – \$770,000 transferred from Trust Assurance to the Lawyers Indemnity Fund for Part B Coverage).

The remaining General Fund net assets represent \$13,267,553 (2022 – \$12,224,616) invested in capital assets, and working capital of \$19,828,651 (2022 – \$17,764,552), combining for a total unrestricted net asset amount of \$33,096,204 (2022 – \$29,989,168).

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

	(in 000s)					2023	2022
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets – Beginning of year	12,224	17,765	29,989	1,867	4,803	36,659	33,724
(Deficiency) excess of revenue over expenses before contribution to Lawyers Indemnity Fund	(1,666)	2,063	397	(417)	1,793	1,773	3,705
Contribution (to)/from Lawyers Indemnity Fund	-	-	-	430	-	430	(770)
Purchase of intangible and capital assets	2,710	-	2,710	-	(2,710)	-	-
Net assets – End of year	13,268	19,828	33,096	1,880	3,886	38,862	36,659

8 Interfund transactions

The operations of the General and Lawyers Indemnity 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 kept in the General Fund bank accounts or invested in a high interest savings account.

Amounts due to and from the Lawyers Indemnity Fund are due on demand and have no fixed terms of repayment. The Lawyers Indemnity Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down as at December 31, 2023 (2022 – \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan.

Monthly interest on the Lawyers Indemnity Fund's net loan position with the General Fund is earned at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Indemnity Fund investment portfolio. The average bond yield for 2023 was 4.46% (2022 – 3.72%). The General Fund's net loan position includes the General Fund's operating balance with the Lawyers Indemnity Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund and the Lawyers Indemnity Fund to finance ongoing operations.

During 2023, interest revenue of \$586,699 (2022 – \$292,681) was received from General Fund cash balances held by the Lawyers Indemnity Fund.

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

9 Related parties

The elected Benchers include licensees 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, 2023, expenses of \$56,319 (2022 – \$27,030) recorded at the carrying amount were incurred by the General Fund during the normal course of business with these law firms.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2023

10 Financial instruments

The General 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, accounts receivable and the loan receivable expose the Fund to credit risk. Cash is held at Schedule 1 Canadian chartered banks, which minimizes risk. The risk of accounts receivable uncollectibility is low due to receivables being from many individual licensees rather than a few large accounts.

The maximum exposure to credit risk arising from the above-noted items is \$29,553,307 (2022 – \$32,365,636). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. The Fund maintains sufficient resources and reserves to meet its obligations when due. The Fund monitors its cash requirements on an ongoing basis to ensure that there are sufficient resources for operations as well as fund anticipated capital expenditures.

**The Law Society of British
Columbia – Lawyers
Indemnity Fund**

Consolidated Fund Financial Statements
December 31, 2023



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia – Lawyers Indemnity Fund and its subsidiary (together, the Fund) as at December 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated fund statement of financial position as at December 31, 2023;
- the consolidated fund statement of revenue and expenses for the year then ended;
- the consolidated fund statement of changes in net assets for the year then ended;
- the consolidated fund statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP
Central City Tower, 13450 102nd Avenue, Suite 1400, Surrey, British Columbia, Canada V3T 5X3
T.: +1 604 806 7000, F.: +1 604 806 7806



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Surrey, British Columbia
April 26, 2024

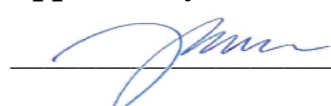
The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Financial Position

As at December 31, 2023

	2023 \$	2022 \$
Assets		
Cash (note 2)	1,978,876	3,266,637
Accounts receivable – net of allowance (note 3)	814,229	501,503
Prepaid expenses	761,565	1,087,325
Short-term investments (note 4)	145,408	197,166
Member deductibles (note 8)	1,675,776	1,499,202
Investments (note 5)	255,861,478	235,484,516
Long-term receivable (note 6)	75,643	133,153
	<u>261,312,975</u>	<u>242,169,502</u>
Liabilities		
Accounts payable and accrued liabilities (note 7)	1,487,317	1,379,221
Deferred revenue (note 2)	9,089,405	8,879,893
Due to General Fund (note 9)	16,243,677	11,733,076
Provision for claims (note 8)	72,848,908	79,420,883
Provision for ULAE (note 8)	12,742,000	13,899,000
	<u>112,411,307</u>	<u>115,312,073</u>
Net assets		
Unrestricted net assets	131,401,668	109,357,429
Internally restricted net assets (note 10)	17,500,000	17,500,000
	<u>148,901,668</u>	<u>126,857,429</u>
	<u>261,312,975</u>	<u>242,169,502</u>

Approved by



President



Chair of Finance and Audit Committee

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2023

	2023 \$	2022 \$
Revenue		
Annual assessments	17,960,747	17,605,045
Investment income (note 5)	9,842,874	11,692,132
Other income	87,048	45,741
	<u>27,890,669</u>	<u>29,342,918</u>
Indemnity expenses		
Actuary, consultant and investment manager fees	1,973,073	1,910,880
Allocated office rent from General Fund	325,505	323,505
Contribution to program and administrative costs of General Fund	1,654,171	1,506,870
Insurance	1,983,860	1,776,803
Office	360,467	460,745
Provision for settlement of claims (note 8)	7,513,077	18,714,099
Provision for (Recovery of) ULAE (note 8)	(1,157,000)	1,500,000
Salaries, wages and benefits	3,327,194	3,185,442
	<u>15,980,347</u>	<u>29,378,344</u>
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	1,226,051	1,110,747
	<u>17,206,398</u>	<u>30,489,091</u>
Excess (deficiency) of revenue over expenses before the following	10,684,271	(1,146,173)
Fair value increase (decrease) in investments (note 5)	11,789,968	(15,494,726)
	<u>22,474,239</u>	<u>(16,640,899)</u>
Contribution (to) from Trust Assurance Net Assets in General Fund (note 9)	(430,000)	770,000
Excess (deficiency) of revenue over expenses for the year	<u>22,044,239</u>	<u>(15,870,899)</u>

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2023

			2023	2022
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
Net assets – Beginning of year	109,357,429	17,500,000	126,857,429	142,728,328
Excess (deficiency) of revenue over expenses for the year	22,044,239	-	22,044,239	(15,870,899)
Net assets – End of year	131,401,668	17,500,000	148,901,668	126,857,429

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2023

	2023 \$	2022 \$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	22,044,239	(15,870,899)
Items not affecting cash		
Unrealized (gain) loss on investments	(11,071,927)	21,486,729
Realized gain on disposal of investments	(718,041)	(5,992,003)
Pooled distributions from investments	(10,324,467)	(11,935,271)
Contribution to (from) the General Fund	430,000	(770,000)
	<u>359,804</u>	<u>(13,081,444)</u>
(Increase) decrease in assets		
Accounts receivable	(312,725)	(163,044)
Prepaid expenses	325,760	(537,932)
Short-term investments	51,758	319,796
Corporate shares held	-	1,003,390
Long-term receivable	57,509	(133,153)
Member deductibles	(176,574)	13,961
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	108,097	(772,291)
Deferred revenue	209,513	233,133
Provision for claims	(6,571,975)	6,503,118
Provision for ULAE	(1,157,000)	1,500,000
	<u>(7,105,833)</u>	<u>(5,114,466)</u>
Investing activities		
Decrease in General Fund building loan	-	100,000
Purchase of investments	(2,457,584)	(43,855,753)
Proceeds from investments	4,195,055	44,968,148
	<u>1,737,471</u>	<u>1,212,395</u>
Financing activities		
Interfund transfers (note 9)	4,080,600	6,332,174
	<u>(1,287,761)</u>	<u>2,430,103</u>
(Decrease) increase in cash		
	<u>3,266,637</u>	<u>836,534</u>
Cash – Beginning of year		
	<u>1,978,876</u>	<u>3,266,637</u>
Supplementary cash flow information		
Interest paid	586,699	292,681
Interest income received	105,106	49,542

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting the 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 Indemnity Fund (the Fund) and the Society's wholly owned subsidiary, BC Lawyers Indemnity Association (BCLIA) that together comprise the Society's indemnification program. Effective January 1, 1990, the Fund underwrites the program by which professional liability indemnity is provided to eligible members of the Society.

The Society's General Fund is presented in separate fund financials.

The Fund is maintained by the Society pursuant to Section 30 of the Legal Profession Act. BCLIA is not subject to regulation by the BC Financial Services Authority (BCFSA).

Part A

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

	\$		\$
The Fund	995,000	Or	990,000
Deductible – applicable to indemnity payments only	5,000	Or	10,000
Limit per error or related errors			1,000,000
Annual aggregate limit for all errors per covered lawyer			2,000,000

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

The Society and BCLIA have obtained stop-loss insurance in the amount of \$12 million to cover aggregate payments for Parts A and C of the Policy over a specified amount. For 2022 claims, the insurer will pay 80% of losses over \$26 million up to a maximum of \$12 million. For 2023 claims, the insurer will pay 80% of losses over \$26.5 million up to a maximum of \$12 million.

Part B

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

For the 2023 and 2022 policy years, there is a \$300,000 per claim limit and a \$17.5 million profession-wide annual aggregate limit. There is no deductible payable by the covered lawyer. The Society and BCLIA have obtained insurance in the amount of \$5 million to cover a portion of the annual aggregate limit. This insurance is subject to a \$3 million group deductible and is co-insured 80/20 with the insurer paying 80% of losses over \$3 million to a maximum of \$5 million, and the Fund paying 20%.

Part C

Effective January 1, 2012, Part C of the Policy provides defined indemnity coverage for trust shortages suffered by covered lawyers as a result of relying on fraudulent certified cheques. Effective January 1, 2017, Part C was expanded to include coverage for certain other social engineering frauds.

For the 2023 and 2022 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 default deductible of 35% of the client trust fund shortage (reduced by the amount of any overdraft paid). Coverage, for relying on fraudulent certified cheques, is contingent upon compliance with the Society's client identification and verification rules.

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 BCLIA.

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.

Cash

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

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.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

Short-term investments

Short-term investments consist of pooled money market funds, whose investments have original maturities of less than 90 days. 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, available for sale equities, bond pooled funds, real estate and mortgage funds, and infrastructure 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.

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 revenue on the date of disposal.

Provision for claims

The provision for claims and unallocated loss adjustment expenses (ULAE) represents 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 provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money. To recognize the uncertainty in establishing best estimates, the Fund includes a provision for adverse deviations (PFAD).

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 revenue is recognized when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

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 as at the date of the consolidated fund financial statements and revenues and expenses for the period reported.

The determination of the provision for claims and ULAE 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, short-term investments, accounts receivable, members' share of provision for claims, bond pooled funds, the investment in real estate funds, infrastructure funds, and mortgage funds indirectly expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$175,097,645 (2022 – \$165,805,496).

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 guidelines of the Society's statement of investment policies and procedures (SIPP) 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 Society's SIPP.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

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 that are set and monitored against the Society's SIPP.

As at December 31, 2023, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$25.6 million (2022 – \$23.5 million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. As at December 31, 2023, 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 \$146 million or 130% (2022 – \$123 million or 107%).

3 Accounts receivable

	2023 \$	2022 \$
Member deductibles	1,085,561	809,736
Allowance for doubtful accounts	(511,451)	(493,634)
Claim recoveries settlements receivable (note 6)	95,638	64,737
GST/HST/PST receivable	144,481	120,664
	<u>814,229</u>	<u>501,503</u>

4 Short-term investments

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

	2023 \$	2022 \$
Money market funds	<u>145,408</u>	<u>197,166</u>

5 Investments

	2023 \$	2022 \$
Investments – at fair value	<u>255,861,478</u>	<u>235,484,516</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

	2023			
	Carrying cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	\$	\$	\$	\$
Bonds				
Pooled Funds	32,310,302		(4,209,775)	28,100,527
Equities				
Canadian Pooled Funds	21,776,886	5,887,332	-	27,664,218
International Pooled Funds	26,791,379	30,922,526	-	57,713,905
	48,568,265	36,809,858	-	85,378,123
Real Estate Fund	14,521,175	8,168,175	-	22,689,350
Mortgage Fund	49,974,218	-	(730,723)	49,243,495
Infrastructure	64,186,241	6,263,742	-	70,449,983
	128,681,634	14,431,917	(730,723)	142,382,828
	209,560,201	51,241,775	(4,940,498)	255,861,478
				2022
	Carrying cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	\$	\$	\$	\$
Bonds				
Pooled Funds	29,474,220	-	(5,252,723)	24,221,497
Equities				
Canadian Pooled Funds	19,179,199	5,374,627	-	24,553,826
International Pooled Funds	26,916,024	23,673,679	-	50,589,703
	46,095,223	29,048,306	-	75,143,529
Real Estate Fund	14,521,175	8,872,341	-	23,393,516
Mortgage Fund	47,361,950	-	(1,285,570)	46,076,380
Infrastructure	62,802,599	3,846,995	-	66,649,594
	124,685,724	12,719,336	(1,285,570)	136,119,490
	200,255,167	41,767,642	(6,538,293)	235,484,516

The effective yield on the bonds, mortgages and equities portion of the investment portfolio was 4.04% (2022 – 4.32%).

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

Investment risk management

The Society has adopted policies that 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 and infrastructure, as well as real estate and mortgages. The Society invests in bonds, equities, infrastructure, real estate and mortgages through pooled funds.

Net investment income

	2023 \$	2022 \$
Interest on cash	105,106	49,542
Pooled distributions	10,324,467	11,935,271
Net interfund loan interest expense (note 9)	(586,699)	(292,681)
	<u>9,842,874</u>	<u>11,692,132</u>

Fair value changes in investments

	2023 \$	2022 \$
Realized gain on disposal of investments	718,041	5,992,003
Unrealized gain (loss) on investments measured at fair value	11,071,927	(21,486,729)
	<u>11,789,968</u>	<u>(15,494,726)</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

6 Long-term receivable

During the year ended December 31, 2023, current accounts receivable of \$95,638 (2022 – \$64,737) and long term receivables of \$75,643 (2022 – \$133,153) were recorded for Part A and B claims recoveries settlements. These claims recoveries are backed by enforceable settlement agreements and have demonstrated consistent collections.

7 Accounts payable and accrued liabilities

	2023 \$	2022 \$
Trade payables	1,294,167	1,209,223
Accrued trade expenses	191,756	167,937
Sales taxes payable	1,394	2,061
	<hr/> 1,487,317	<hr/> 1,379,221

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2023

8 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:

	2023 \$	2022 \$
Part A Indemnity Coverage		
Provision for claims – Beginning of year	77,613,481	72,437,605
Provision for losses and expenses for claims reported in the current year	22,756,000	21,212,000
Decrease in estimated losses and expenses for losses reported in prior years	(14,791,000)	(6,194,000)
Provision for claims liability	85,578,481	87,455,605
(Subtract) add:		
Payments on claims reported in the current year	(2,465,601)	(1,131,439)
Payments on claims reported in prior years	(11,981,420)	(9,121,924)
Recoveries on claims	334,437	426,650
Change in due from members	219,538	(15,411)
Claim payments – net of recoveries	(13,893,046)	(9,842,124)
Part A Provision for claims – End of year	71,685,435	77,613,481
Part B Indemnity Coverage		
Unpaid claims – Beginning of year	1,336,756	288,857
Provision for (Recovery of) losses and expenses for claims	(501,468)	3,376,169
	835,288	3,665,026
(Subtract) add:		
Payments on claims	(80,997)	(2,363,557)
Recoveries on claims	58,560	35,287
Claim payments – net of recoveries	(22,437)	(2,328,270)
Part B Provision for claims – End of year	812,851	1,336,756
Part C Indemnity Coverage		
Provision for claims – Beginning of year	470,646	191,304
Provision for losses and expenses for claims reported in the current year	49,545	319,930
	520,191	511,234
(Subtract) add:		
Payments on claims	(126,605)	(42,038)
Change in due from members	(42,964)	1,450
	(169,569)	(40,588)
Part C Provision for claims – End of Year	350,622	470,646
Total provision for Parts A, B and C Indemnity Coverage	72,848,908	79,420,883

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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 effect 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 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 operational 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 5.38% (2022 – 3.58%). 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 \$2.162 million (2022 – 2.538 million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.458 million (2022 – \$2.798 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 estimates are adequate to pay future claims liabilities, the Fund includes a 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, net of members' share of provision for claims, are as follows (in thousands of dollars):

	2023	2022
	\$	\$
Undiscounted	83,648	86,866
Effect of present value	(12,270)	(8,881)
PFAD	12,537	13,834
	<hr/>	<hr/>
	83,915	91,819
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The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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	2023 \$	2022 \$
Provision for claims	72,849	79,421
Provision for ULAE	12,742	13,899
Member deductibles	(1,676)	(1,501)
	<u>83,915</u>	<u>91,819</u>

Claims development tables (net of members' share of provision for claims)

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 indemnity claims (in thousands of dollars)

Claims year	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$	2023 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	12,690	15,090	16,720	15,720	19,767	18,522	17,877	16,896	20,338	22,966	
One year later	12,390	16,590	15,440	15,791	19,219	17,580	17,353	18,034	18,833		
Two years later	12,240	15,210	15,956	16,005	18,802	17,062	16,963	14,766			
Three years later	11,760	13,153	14,548	14,807	15,664	15,577	14,108				
Four years later	12,256	12,775	13,875	13,387	16,070	13,217					
Five years later	11,862	10,385	12,761	13,492	15,504						
Six years later	11,062	10,266	11,777	13,496							
Seven years later	10,271	9,777	11,988								
Eight years later	10,079	9,375									
Nine years later	9,983										
Current estimate of cumulative claims	9,983	9,375	11,988	13,496	15,504	13,217	14,108	14,766	18,833	22,966	144,236
Cumulative payments to date	(9,164)	(8,224)	(10,829)	(9,408)	(10,530)	(9,570)	(7,085)	(5,343)	(4,641)	(2,563)	(77,357)
Undiscounted unpaid liability	<u>819</u>	<u>1,151</u>	<u>1,159</u>	<u>4,088</u>	<u>4,974</u>	<u>3,647</u>	<u>7,023</u>	<u>9,423</u>	<u>14,192</u>	<u>20,403</u>	<u>66,879</u>
Undiscounted unpaid liability in respect of 2013 and prior years											2,914
Undiscounted unallocated loss adjustment expense reserve											<u>12,498</u>
Total undiscounted unpaid claims liability											<u>82,291</u>
Discounting adjustment (includes claim PFAD)											<u>270</u>
Total discounted unpaid claims liability											<u>82,561</u>

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Part B indemnity claims (in thousands of dollars)

Claims year	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	2022 \$	2023 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	562	41	274	1,588	135	152	93	196	2,680	34	
One year later	500	184	134	1,764	126	51	84	366	2,415		
Two years later	421	180	62	1,696	178	49	133	370			
Three years later	372	157	65	2,039	166	70	5				
Four years later	205	120	70	2,043	263	83					
Five years later	185	101	65	2,404	259						
Six years later	199	107	80	2,390							
Seven years later	201	106	79								
Eight years later	240	95									
Nine years later	242										
Current estimate of cumulative claims	242	95	79	2,390	259	83	5	370	2,415	34	5,972
Cumulative payments to date	(217)	(93)	(65)	(2,049)	(160)	(55)	(5)	(370)	(2,114)	(34)	(5,162)
Undiscounted unpaid liability	25	2	14	341	99	28	-	-	301	-	810
Undiscounted unpaid liability in respect of 2013 and prior years											6
Undiscounted unallocated loss adjustment expense reserve											143
Total undiscounted unpaid claims liability											959
Discounting adjustment (includes claim PFAD)											(4)
Total discounted unpaid claims liability											955

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Part C indemnity claims (in thousands of dollars)

Claims year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	-	-	-	-	65	650	91	56	-	177	
One year later	-	-	-	423	65	723	91	365	-		
Two years later	-	-	-	923	65	692	91	354			
Three years later	-	-	-	923	65	522	-				
Four years later	-	-	-	923	65	522					
Five years later	-	-	-	423	65						
Six years later	-	-	-	423							
Seven years later	-	-	-								
Eight years later	-	-	-								
Nine years later	-	-	-								
Current estimate of cumulative claims	-	-	-	423	65	522	-	354	-	177	1,541
Cumulative payments to date	-	-	-	(423)	(65)	(522)	-	(80)	-	(115)	(1,205)
Undiscounted unpaid liability	-	-	-	-	-	-	-	274	-	62	336
Undiscounted unpaid liability in respect of 2013 and prior years											-
Undiscounted unallocated loss adjustment expense reserve											61
Total undiscounted unpaid claims liability											397
Discounting adjustment (includes claim PFAD)											2
Total discounted unpaid claims liability											399

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, 2023	21,011	16,769	13,104	9,048	6,361	17,355	83,648
December 31, 2022	22,334	17,486	13,649	9,508	6,522	17,367	86,866

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Role of the actuary

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 as 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, which 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 indemnity 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 policy liabilities.

9 Interfund transactions

The operations of the Fund and the General 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. Amounts due to and from the General Fund are due on demand and have no fixed terms of repayment. The Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down as at December 31, 2023 (2022 - \$ nil), to the General Fund to fund capital expenditures in accordance with the capital plan.

Pursuant to reserve policy, \$430,000 of the net assets was transferred to trust assurance during 2023 (2022 – (\$770,000)).

Monthly interest on the Fund's net loan position with the General 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 2023 was 4.46% (2022 – 3.72%). The Fund's net loan position as at December 31, 2023 was \$16.2 million (2022 – \$11.7 million) which includes other operating balances with the General Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Fund to finance ongoing operations.

During the year ended December 31, 2023, interest of \$586,699 (2022 – \$292,681) was paid on General Fund cash balances held by the Fund.

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

The Law Society of British Columbia – Lawyers Indemnity Fund

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10 Internally restricted net assets

The Benchers have allocated one annual, profession-wide, policy limit of \$17.5 million (2022 – \$17.5 million) of the net assets to Part B coverage for dishonest appropriation of trust funds or property.

11 Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2023, expenses of \$11,962 (2022 – \$185,730) were incurred by the Fund with these law firms.