



LET RIGHT PREVAIL

The Law Society of  
Upper Canada

Barreau  
du Haut-Canada

The Law Society of  
Upper Canada

exists to govern the  
legal profession  
in the public interest

# 1998 ANNUAL REPORT



## CONTENTS

2	INTRODUCTION
3	MESSAGE FROM THE TREASURER
5	MESSAGE FROM THE CHIEF EXECUTIVE OFFICER
8	STATISTICS AT A GLANCE
10	FINANCIAL STATEMENTS
37	CONVOCATION MEMBERSHIP
38	SENIOR MANAGEMENT
39	ANNUAL GENERAL MEETING



## INTRODUCTION

---

### THE LAW SOCIETY OF UPPER CANADA

The Law Society of Upper Canada is the governing body of Ontario's legal profession. One of the oldest professional organizations in Canada, the Society was formed on July 17, 1797 and incorporated in 1822. The Society is responsible for the education, licensing, supervision and disciplining of the province's lawyers in order to ensure the public is provided with competent and professional legal services.

The Society's affairs are governed by forty-eight governors known as benchers – forty of whom are elected by members of the legal profession every four years, and eight (lay benchers) who are non-lawyers chosen from the general public and appointed by the Lieutenant Governor-in-Council.

### THE MISSION STATEMENT OF THE LAW SOCIETY OF UPPER CANADA

The Law Society of Upper Canada exists to govern the  
legal profession in the public interest by:

.....

ensuring that the people of Ontario are served by  
lawyers who meet high standards of learning, competence  
and professional conduct; and

.....

upholding the independence,  
integrity and honour of the legal profession;

.....

for the purpose of advancing the cause of justice  
and the rule of law.



Ours is an ancient and honourable self-governing profession. In 1998, we reaffirmed our commitment to uphold the elemental purpose of our Society, the governance of the profession in the public interest, and we sketched the blueprint for the governance of the profession into the new millennium.

In December, 1998, after years of lobbying, the Legislature passed the *Law Society Amendment Act, 1998*, giving the Society the tools to govern the profession at once fairly and efficiently.

Enactment of the statute means that the Society, at long last, has the authority to define and enforce standards of competence. This is a good and necessary thing: increased quality of legal services is in the public interest as well as in the profession's interest. The reason is that the elaboration and enforcement of reasonable standards of competence necessarily reflects positively on the image of the profession and necessarily reduces insurance premiums by inevitably reducing the number of claims.

In December, 1998, the Legislature also passed the *Legal Services Act, 1998* and created thereby a new and independent entity called Legal Aid Ontario. On April 1, 1999, Legal Aid Ontario took over from the Law Society responsibility for the administration of legal aid, a development strongly endorsed by the Law Society.

The value and promise of Legal Aid Ontario is that it will operate as a corporation independent of both the Attorney General and the Law Society. And now that Legal Aid Ontario has come into existence, it is a good and apt time to thank formally the countless lawyers of Ontario who served their clients and Legal Aid all these many years with honour, empathy and professional distinction. Legal Aid lawyers fulfill virtually every day of their practices the admonition in the Rules of Professional Conduct that legal services on behalf of those in need or for whom the law would otherwise be inaccessible is in the best traditions of the bar.

This is an appropriate time, too, to recognize and honour the seminal contributions to our profession of Attorney General Charles Harnick who has recently decided to retire from politics. The simple reality is that without his indefatigable spirit and good will, the legislative reform so long and earnestly sought by the Law Society would not have come to be.

Mr. Harnick has served his office with distinction and has been a true friend to the legal profession and to the Law Society. The *Law Society Amendment Act, 1998* and the *Legal Services Act, 1998* will forever bear his imprint. They are the measure of his vision, dedication and good judgment. On a personal note, I would be remiss if I did not express to him my sincere gratitude for his

openness, his accessibility, and his good humour. His decision to leave politics is a severe loss for Ontario, for the profession and for the Law Society.

In June, 1998, Convocation established a Task Force to review the Law Society's Rules of Professional Conduct. Its mandate was simple and direct: examine the Rules of Professional Conduct and, where necessary, redraft them with the aim of providing guidance to lawyers while fostering and facilitating an environment to enable them to compete in the marketplace.

Revisions to the Rules of Professional Conduct will also ensure that fundamental equity principles are expressed throughout. Our profession should not be, cannot be, a place where any person ought to feel unwelcome by virtue of colour, creed, gender, aboriginal status, ethnicity, sexual orientation, or any other factor which may cause some uninformed, unenlightened members of society to view them as marginal.

In November 1998, the Law Society welcomed a full-time Equity Advisor into a senior management position. The Equity Advisor's immediate task is to implement the recommendations and strategies set out in Convocation's 1997 *Bicentennial Report on Equity Issues in the Legal Profession*.

The financial state of the Law Society is sound, remarkably so. In 1998, there was a \$5.9 million General Fund surplus which included \$2.7 million from operations and \$3.2 million from special funds, such as the Osgoode Hall Capital Fund. The Combined Errors and Omissions Fund reported a \$43.7 million surplus as at December 31, 1998, an improvement from the \$11.1 million deficit as at December 31, 1997. For 1999, Law Society fees were reduced by \$425 per member, and base premiums for the Errors & Omissions Fund were reduced by \$1,000 - in total \$1,425 less than in 1998.

Moreover, because legal aid is now under the auspices of Legal Aid Ontario, the profession will no longer contribute approximately \$5,500,000 to the administrative costs of legal aid.

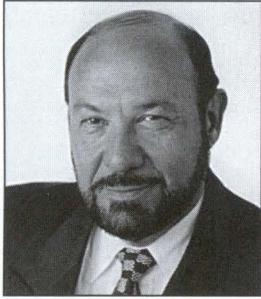
As of May, 1999, the four-year term of this bench ends. I have been privileged to work with the benchers who were elected in 1995. Each one of them has an extraordinary dedication to the profession. On your behalf, I thank them for their service.

The staff of the Law Society, led by John Saso, and the staff at the Lawyers' Professional Indemnity Company, led by Malcolm Heins, also deserve our gratitude and praise. They too have shown exceptional talents in dealing graciously and professionally with our countless demands upon them.

As my term as Treasurer ends, I want to thank you for affording me the privilege of serving you, and to say that I have been truly honoured.

My wife Cathy and I wish each of you an abundance of health, happiness and success.

Harvey T. Strusberg



In 1995, the current bench directed and encouraged Law Society staff to make major improvements in the way we conduct our business. The completion of much of the work to carry out this directive took place in 1998. I would like to commend the benchers for their vision and to review the Society's administrative gains over the past four years.

The Law Society set about to modernize our business practices under the initiative known as *Project 200*. Project 200's primary objective is to restructure the operations of the Law Society so that it can effectively achieve service excellence and enhance organizational efficiency. Thorough research and analysis resulted in redesign plans for regulatory operations, education, human resources, information systems and the introduction of a new customer service focus for all Law Society operations.

During 1998, Project 200 shifted from its conceptual and planning stages into full implementation mode, targeting the beginning of 2000 for completion.

A one-stop service centre will soon be available for members and the public through the Law Society's Customer Service Centre (CSC). Accessible for extended business hours by telephone, Internet or in person, the CSC will provide service to those seeking information and assistance with membership, continuing legal education, complaints, lawyer referral and certification matters, to name just a few of the over 30 services to be consolidated into the CSC at Osgoode Hall. Scheduled to begin operating in the summer of 1999, the CSC will allow for quick and accurate processing of member and public requests and eliminate operational duplication.

Amendments to the *Law Society Act* prepared the groundwork for establishing performance standards and measurements within the Society's regulatory operation. Coupled with the streamlined and more flexible disciplinary process authorized by the amended Act, the Law Society will aim to conclude 95 per cent of all regulatory matters in less than a year. Electronic case tracking and workflow systems, the introduction of case management practices, alternative dispute resolution and increased remedial dispositions, will assist in meeting the Society's regulatory performance targets.

The number of complaints about lawyers received by the Law Society over the last five years has dropped significantly, by more than 20 per cent. To help support this trend, about 100 spot audits per month will be conducted in 1999. An additional 150 to 220 annual focused audits will also be conducted. Spot and focused audits are part of a proactive programme to identify compliance problems before they become matters for discipline and should help further reduce the number of complaints received in the years ahead.

---

A vital component in the ultimate success of the Society's client service programme is our investment in new technology. Recently acquired technology solutions are quickly being added to the Society's operations to improve tracking of professional misconduct complaints/cases, to manage workflow and greatly improve overall efficiency. Strategic information will be collected about our members, enabling the Society to effectively tailor educational and remedial services. A single membership database (replacing the current 32 outmoded and unconnected databases) and a case tracking and workflow management system is currently being installed.

Electronic filing of the membership information form (MIF) via the Society's website at [www.lsuc.on.ca](http://www.lsuc.on.ca) has increased by 400 per cent. While only 369 members participated for 1997, 1,900 members filed electronically for 1998. That number is expected to grow at a comparable rate as more and more members take advantage of our on-line service. The private practitioners report can also be "e-filed" now and we expect increasing numbers of members to take advantage of this new service. In 1998, over 632,000 web pages were accessed from the Society's website and the site will continue to be developed to meet the information needs of members and the public.

The Great Library catalogue is now accessible electronically via the Internet and publications are available on CD-ROM. All 48 County and District Libraries have been provided with computers, CD-ROMs, electronic access to publications and free access to the Quicklaw Database.

While improved technological systems and information management methodologies are a key component of streamlining our business practices, the Law Society's most valued asset and its primary resource is its people. This fact has been especially evident during the Project 200 implementation phase as staff incorporate the redesign principles and new operating procedures into their everyday work practices. While change is exciting, it also creates stress for employees.

I welcome this opportunity to recognize the huge effort Law Society staff have made over the past years, and continue to make to ensure the success of our restructuring programme. In many cases, staff members juggled a number of additional responsibilities as colleagues became members of the Project 200 implementation teams. For others it has meant competing for new positions within the organization or taking steps towards a new career outside the Law Society.

To all staff, I express my deepest admiration and appreciation for your exceptional efforts and dedication to improving the way we conduct our business.

## FINANCIAL HIGHLIGHTS

Over the past four years ongoing improvements to our business practices have resulted in operating expense reductions, other savings and revenue enhancements totaling approximately \$8 million.

For the year ended December 31, 1998, we are pleased to report a surplus \$5.9 million in the General Fund resulting primarily from funds accumulated for future expenditures on Project 200 and the maintenance and restoration of Osgoode Hall, as well as from higher-than-forecast membership fee revenues, ongoing cost-saving measures, and significant investment returns.

The Lawyers Fund for Client Compensation is reporting an annual surplus of \$2.7 million for 1998. This extremely positive news is a vast improvement over 1997 which closed with the Fund in a deficit position of \$1.8 million.

The Errors & Omissions insurance program is on a strong footing. At the March 1999 meeting, Convocation celebrated the retirement of the Errors and Omissions fund deficit. In its separate annual report, LPIC reported net income of \$5.6 million for the 1998 year. The combination of the deficit retirement and the consistent improvements in the insurance program mean that for 1999 the implementation of a risk-based insurance program will be accomplished.

## LOOKING AHEAD

Members will benefit directly from the improved financial position of the Law Society. In 1999, the general membership fee has been reduced by \$425. In addition, the base LPIC premium has been reduced by \$1,000.

As a result of the transfer of the Law Society's responsibility for legal aid to an independent corporation, Legal Aid Ontario, the Society will start in 2000 to realize annual savings of over \$5 million.

By the beginning of 2000, the Law Society will have completed its restructuring project, a timely achievement in preparation for the new millennium. We can look forward to the future with confidence, from a solid financial position which reflects significant and meaningful cost savings for our membership. Our goal remains to serve the interests of the public and of our members in the most effective and cost-efficient manner possible.

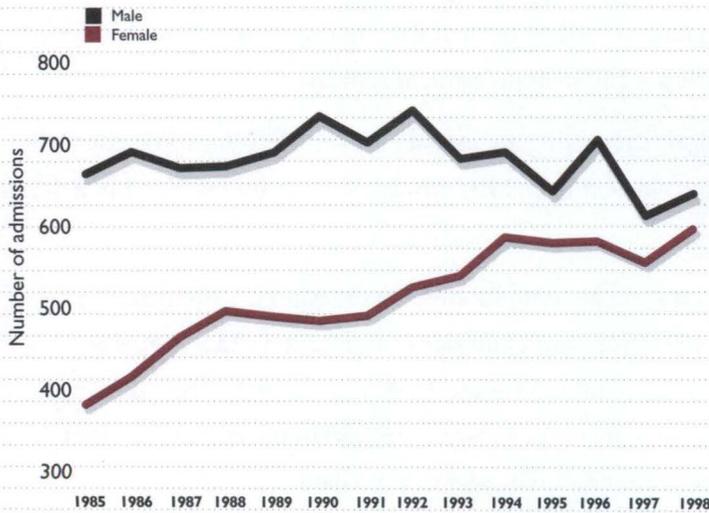




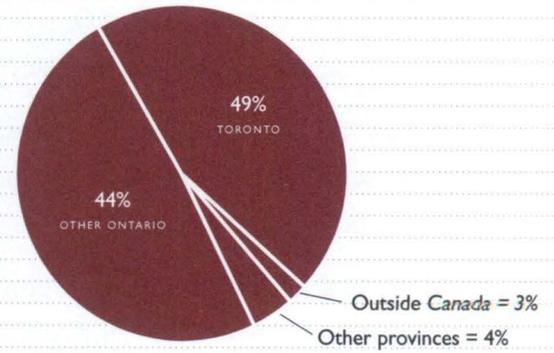
## Membership Statistics

The information presented here is based on Law Society data at December 31, 1998

Admissions (by sex, 1985-1998)

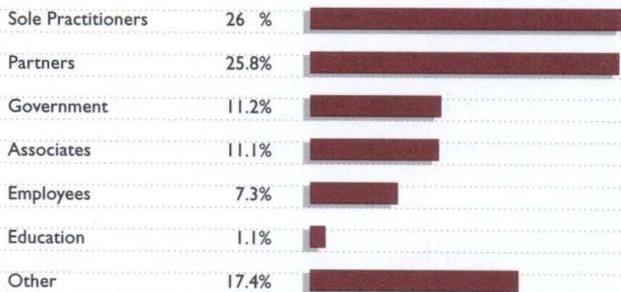


Geographical distribution of members



Membership by area of employment

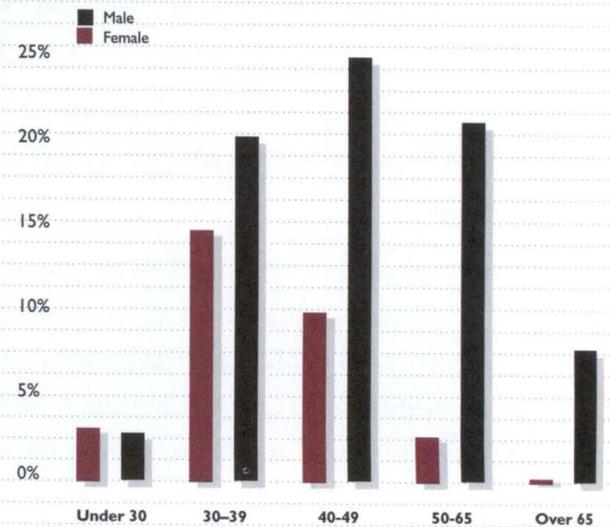
% of total employed members



- Total employed members = 23,827
- Other category includes corporate and non-profit sectors

Membership by age range and sex

% of members in good standing

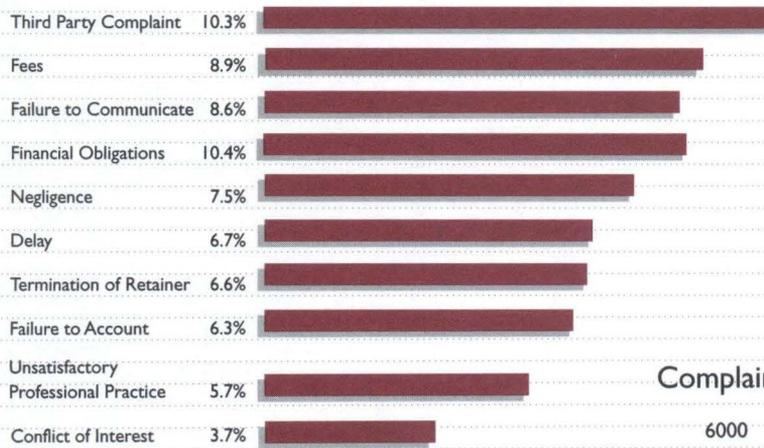


Size of Law Firm:

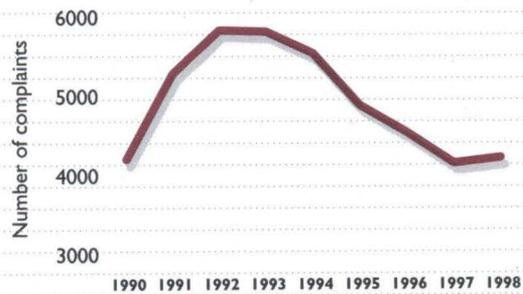
Size of Law Firm	Number of Firms	Percentage
sole practitioners	5,438	74.3%
2-10 lawyers	1,731	23.6%
11-25 lawyers	103	1.4%
26-50 lawyers	27	0.4%
51+ lawyers	24	0.3%

## Complaints Statistics

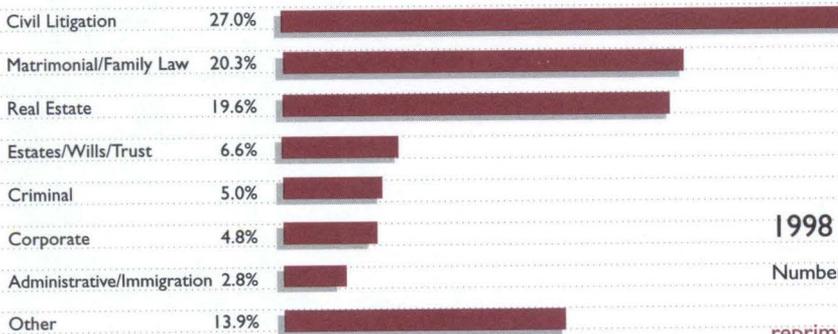
### Complaints received by type 1998



### Complaints received by the Law Society



### Complaints received by area of law 1998



### 1998 Discipline

Number of lawyers:

reprimanded in Committee	37
reprimanded in Convocation	9
suspended	51
disbarred	7
permitted to resign	13



## **FINANCIAL STATEMENTS**

**11-20**

### **GENERAL FUND**

*Auditors' Report, Financial Statements  
and Notes*

**21-26**

### **LAWYERS FUND FOR CLIENT COMPENSATION**

*Auditors' Report, Financial Statements  
and Notes*

**27-36**

### **ERRORS AND OMISSIONS INSURANCE FUND**

*Auditors' Report, Actuary's Report,  
Financial Statements and Notes*

## Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA:

We have audited the balance sheets of THE LAW SOCIETY OF UPPER CANADA - GENERAL FUND as at December 31, 1998 and 1997, and the related statements of revenues and expenses, fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Toronto, Canada  
March 12, 1999



## GENERAL FUND

### Balance Sheet

*Stated in thousands of dollars*

*As at December 31*

	1998	1997
<b>ASSETS</b>		
Cash and short-term investments	9,650	3,896
Accounts receivable	2,367	2,363
Prepaid expenses and deferred charges	439	454
Capital assets (note 3)	18,049	17,960
<b>Total Assets</b>	<b>30,505</b>	<b>24,673</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Accounts payable and accrued liabilities	3,869	3,412
Due to Legal Aid Plan (note 4)	3,132	3,915
Deferred revenue	402	196
<b>Total liabilities</b>	<b>7,403</b>	<b>7,523</b>
<b>FUND BALANCES</b>		
Unrestricted fund	(427)	(4,675)
Invested in capital assets	18,049	17,960
Restricted funds	5,020	3,411
Endowment funds	460	454
Total Fund Balances	23,102	17,150
<b>Total Liabilities and Fund Balances</b>	<b>30,505</b>	<b>24,673</b>

*See accompanying notes*

On behalf of Convocation

*Harvey T. Strosberg*

Treasurer

*[Signature]*

Chair of Finance and Audit Committee

## Statement of Revenues and Expenses

Stated in thousands of dollars

Year ended December 31

	1998		1997
	Actual	Budget	Actual
	(UNAUDITED)		
<b>REVENUES</b>			
Membership fees (note 5)	34,358	32,756	41,015
Bar admission course	5,716	5,772	5,643
Other	1,667	1,362	1,428
Continuing legal education	1,644	1,393	1,583
Library	1,270	1,193	1,421
Investment income	1,056	400	448
Endowment Fund interest	21	-	-
<b>Total revenues</b>	<b>45,732</b>	<b>42,876</b>	<b>51,538</b>
<b>PROGRAM EXPENSES</b>			
Regulatory	9,617	9,481	8,814
Bar admission course	5,831	5,704	5,716
Administration	2,589	3,303	2,300
Library services	2,152	2,276	2,631
Facilities	1,890	1,703	1,480
Continuing legal education	1,542	1,366	1,504
Communications	1,173	1,409	1,620
Information systems	1,143	1,318	830
<b>Total program expenses</b>	<b>25,937</b>	<b>26,560</b>	<b>24,895</b>
<b>OTHER EXPENSES</b>			
Restricted fund expenses	9,713	15,460	8,474
Amortization of capital assets	2,219	1,459	1,481
General administration and restructuring	1,911	2,207	2,146
Amount invested in and remitted to LPIC	-	-	13,863
<b>Total other expenses</b>	<b>13,843</b>	<b>19,126</b>	<b>25,964</b>
<b>Total expenses</b>	<b>39,780</b>	<b>45,686</b>	<b>50,859</b>
<b>GENERAL FUND SURPLUS</b>	<b>5,952</b>	<b>(2,810)</b>	<b>679</b>

See accompanying notes



## GENERAL FUND

## Statement of Fund Balances

Stated in thousands of dollars

Year Ended December 31

	1998										1997	
	Unrestricted Fund	Invested in Capital Assets	Project 200	RESTRICTED FUNDS						Endowment Funds	Total	Total
				County Library levy	Legal Aid levy	Osgoode Hall Capital	Insurance Levy Waiver	Technology and Research Infrastructure	Total Restricted Funds			
Revenues	<b>32,812</b>	-	1,791	3,467	2,842	1,192	25	3,582	12,899	<b>21</b>	<b>45,732</b>	51,538
Expenses including Amortization	<b>30,052</b>	-	1,687	3,514	4,323	-	37	152	9,713	<b>15</b>	<b>39,780</b>	50,981
Net revenue (expense)	<b>2,760</b>	-	104	(47)	(1,481)	1,192	(12)	3,430	3,186	<b>6</b>	<b>5,952</b>	557
Interfund transfers		<b>1,577</b>	2,006	-	-	(153)	-	(3,430)	(1,577)	-	-	-
<b>Surplus (Deficit)</b>	<b>2,760</b>	<b>1,577</b>	<b>2,110</b>	<b>(47)</b>	<b>(1,481)</b>	<b>1,039</b>	<b>(12)</b>	<b>-</b>	<b>1,609</b>	<b>6</b>	<b>5,952</b>	557
<b>Section 4400</b>												
<b>Adjustments (note 10)</b>												
Amortization of capital assets	<b>2,219</b>	<b>(2,219)</b>										-
Interfund transfers	<b>(731)</b>	<b>731</b>										-
<b>Fund balances, beginning of year</b>	<b>(4,675)</b>	<b>17,960</b>	-	<b>1,872</b>	<b>1,292</b>	-	<b>247</b>	-	<b>3,411</b>	<b>454</b>	<b>17,150</b>	16,593
<b>Fund balances, end of year</b>	<b>(427)</b>	<b>18,049</b>	<b>2,110</b>	<b>1,825</b>	<b>(189)</b>	<b>1,039</b>	<b>235</b>	-	<b>5,020</b>	<b>460</b>	<b>23,102</b>	17,150

See accompanying notes

## Statement of Cash Flows

Stated in thousands of dollars

Year ended December 31

	1998	1997
<b>OPERATING ACTIVITIES</b>		
Net surplus (note 10):	5,952	679
LPIC Capitalization levy	-	13,863
Items not affecting cash:		
Amortization of capital assets	2,219	1,481
Other operating sources (uses) of cash:		
Accounts receivable	(4)	693
Inventory	182	(9)
Prepaid expenses and deferred charges	(167)	71
Accounts payable and accrued liabilities	457	(1,163)
Due to Legal Aid Plan	(783)	(594)
Deferred revenue	206	(1,000)
<b>Total operating activities</b>	<b>8,062</b>	<b>14,021</b>
<b>INVESTING ACTIVITIES</b>		
Capital asset additions	(2,308)	(524)
Investment in LPIC (note 6)	-	(13,863)
<b>Total investing activities</b>	<b>(2,308)</b>	<b>(14,387)</b>
<b>Net increase (decrease) in cash and short-term investments during the year</b>	<b>5,754</b>	<b>(366)</b>
Cash and short-term investments, beginning of year	3,896	4,262
<b>Cash and short-term investments, end of year</b>	<b>9,650</b>	<b>3,896</b>

See accompanying notes



## Notes to Financial Statements

For the year ended December 31, 1998

(Stated in whole dollars except where indicated)

### 1. Description of Fund

The Law Society of Upper Canada (the "Society") was founded in 1797 and was incorporated in 1822 with the enactment of the *Law Society Act*. The Society exists to govern the legal profession in the public interest. This is achieved by ensuring that the people of Ontario are served by lawyers who meet high standards of learning, competence and professional conduct and by upholding the independence, integrity and honour of the legal profession, for the purpose of advancing the cause of justice and the rule of law. This mandate is carried out by the governing body of the Society which is known as *Convocation*.

The *Law Society Amendment Act, 1998* received royal assent in December 1998 and came into force on February 1, 1999. This Act makes substantive and important amendments to the *Law Society Act*, including a restructuring scheme of professional governance based on the authority in the statute. The *Law Society Amendment Act, 1998*, authorizes the Society to make regulations, by-laws and rules of practice and procedure as a means of governing all proceedings described in the Act.

The Society is not subject to income or capital taxes because it is a not-for-profit corporation. These financial statements represent the financial position of operations of the Law Society of Upper Canada - General Fund, which includes certain internally restricted funds, and do not purport to represent all assets and liabilities under the control of the Law Society of Upper Canada.

Separate financial statements have been prepared for the following related entities:

#### *Legal Aid Fund*

The Society is empowered to administer the Legal Aid Plan and to maintain the Legal Aid Fund in accordance with the Legal Aid Act. The extent of the Society's responsibility for funding the activities of the Legal Aid Plan is set out in note 4 to these financial statements. The Society reports annually to the Attorney General of Ontario on the accounts and financial transactions of the Legal Aid Fund. The financial statements of the Legal Aid Fund are subject to audit by the Provincial Auditor.

#### *Lawyers Fund for Client Compensation*

The Society maintains the Lawyers Fund for Client Compensation pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. The Lawyers Fund for Client Compensation is financed by members' annual assessments and investment income.

#### *Errors & Omissions Insurance Fund and Lawyers' Professional Indemnity Company*

The Society provides professional liability insurance to the legal profession through the Errors and Omissions Insurance Fund (the "E&O Fund") and the Lawyers' Professional Indemnity Company ("LPIC"). The E&O Fund was originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment. Prior to July 1, 1990 the Errors and Omission Insurance program was underwritten by various insurance carriers. LPIC took over underwriting the program commencing July 1, 1990. LPIC is a wholly owned subsidiary of the Society that was incorporated in 1990 and licensed as an insurer in Ontario and Newfoundland. Combined financial statements are prepared for the E&O Fund and LPIC.

#### *Law Society Foundation*

The Law Society Foundation was incorporated by Letters Patent in October 1962. The Law Society Foundation is a registered charity under the terms of the Income Tax Act and as such, is exempt from income taxes. The objects of the Law Society Foundation are to foster, encourage and promote legal education in Ontario, provide financial assistance to law

students in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage and to maintain a collection of gifts of books and other written material for use by educational institutions in Canada.

#### *The Law Foundation of Ontario*

The Law Foundation of Ontario was created to receive interest accruing on monies held in lawyers' mixed trust accounts and to establish and maintain a fund to be used for the purposes of legal education and legal research, legal aid and the establishment, maintenance and operation of law libraries. During 1998 the Law Foundation of Ontario contributed to the General Fund of the Society \$1,062,900 (1997 - \$1,181,000) for the operation of the bar admission course and \$599,500 (1997 - \$655,000) for library programs.

## 2. Significant Accounting Policies

#### *Fund Accounting*

The Law Society of Upper Canada follows the restricted fund method of accounting.

The *Unrestricted Fund* accounts for the Society's programme delivery and administrative activities. This fund reports unrestricted resources. Capital assets owned by the Society are reported by the General Fund as Investment in Capital Assets.

The *Legal Aid Fund* reports any funds on hand and not yet turned over to the Ontario Legal Aid Plan. This fund has been established by Convocation to enable the Law Society to meet its funding obligation as detailed in Legal Aid Act.

The *Osgoode Hall Capital Fund* reports funds that have been internally restricted by Convocation for the purposes of undertaking capital projects at Osgoode Hall. On an annual basis, capital works are identified and appropriate funding is raised through a levy on the membership.

The *County Library Fund* accounts for funds raised on behalf of the 48 County and District Law Libraries. These funds are internally restricted for use by these Law Libraries to carry out their annual operations and any special projects approved by Convocation. The fund balance is available for disbursement in future periods.

The *Project 200 Fund* accounts for funds restricted in use by Convocation for the purposes of completing the Law Society's restructuring and process re-engineering project known as *Project 200*. Funds have been raised in accordance with a detailed business plan and internally restricted by Convocation. The Fund Balance is available for the project.

The *Insurance Levy Waiver Fund* records the restricted resources available to provide financial assistance to lawyers who experience difficulty in meeting their liability insurance premiums. The Fund is internally restricted by Convocation and is structured in such a manner to maintain a perpetual fund balance of \$250,000. This balance is available on an annual basis for the Committee on Relief and Assistance to provide grants to individual lawyers.

The *Technology and Research Infrastructure Fund* reports resources set aside for development and implementation of assistive technology for the legal profession. During the year, Convocation approved a transfer of the balance of these funds to the Project 200 Fund.

The Society administers two *Endowment Funds*. The Law Society Trust has been established in accordance with the terms of the endowment so that the Society can award prizes, bursaries and gifts to deserving students in the Bar Admission Course. The J. Shirley Denison Fund has been established to provide relief and assistance to members and former members who find themselves in difficult financial circumstances. Contributions for endowment are recognized as revenue in the Endowment Fund.

#### *Cash and short-term investments*

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy. Short-term investments are stated at the lower of cost and market value. Investment income, except income earned on resources held for endowment, is retained in and reported by the Unrestricted Fund.

**GENERAL FUND**  
**NOTES TO FINANCIAL STATEMENTS**

*Capital assets*

Land, buildings, major building improvements, furniture, equipment and computer hardware and software are presented at cost net of accumulated amortization and grants. Amortization is charged to expense on a straight-line basis over the estimated useful lives of the assets commencing in the year following acquisition as follows:

Buildings	30 years
Building improvements	3 to 10 years
Furniture, equipment and computer hardware and software	3 to 5 years

*Revenue Recognition*

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

*Collections*

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items.

*Volunteer services*

The work of the Society is dependent on the voluntary services of the elected Benchers and other members of the profession. These services are received gratuitously, therefore, no value has been included in these financial statements.

*Financial instruments*

The estimated fair value of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

*Measurement Uncertainty*

The preparation of the financial statements with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

**3. Capital Assets**

<i>As at December 31, 1998</i>	Cost \$000's	Accumulated Amortization \$000's	Net \$000's
Land and buildings	28,099	13,175	<b>14,924</b>
Building improvements	2,307	1,350	<b>957</b>
Furniture, equipment and computer hardware and software	6,085	3,917	<b>2,168</b>
	<b>36,491</b>	<b>18,442</b>	<b>18,049</b>

<i>As at December 31, 1997</i>	Cost \$000's	Accumulated Amortization \$000's	Net \$000's
Land and buildings	27,946	12,513	<b>15,433</b>
Building improvements	1,964	882	<b>1,082</b>
Furniture, equipment and computer hardware and software	4,526	3,081	<b>1,445</b>
	<b>34,436</b>	<b>16,476</b>	<b>17,960</b>

#### 4. Legal Aid Levy

Pursuant to section 26 of the Legal Aid Act, the Society shall contribute to the Legal Aid Fund such a percentage of the total assessable administrative expenses as is set out in Regulation 710 s93 (1) as amended, set at 25% for all fiscal years ended March 31, 1998 or prior and 18.75% for the fiscal year ended March 31, 1999.

In order to fund this contribution to the Legal Aid Fund, the Society assesses its members a levy based upon projections received from the Legal Aid Plan. Any excess amounts collected are set aside for future use in reducing Legal Aid levies to the members in accordance with the Regulations pursuant to the Legal Aid Act.

The Legal Aid Plan is administered by The Law Society of Upper Canada pursuant to the Legal Aid Act and Regulations and a Memorandum of Understanding (MOU) between the Province of Ontario and the Society. This MOU will expire on March 31, 1999 at which time all Society obligations under the MOU and the Legal Aid Act will end. The current Act will be repealed and replaced by the Legal Aid Services Act, 1998.

#### 5. Membership Fees and Levies

The membership fees and levies are comprised of the following components: Unrestricted Fund membership fee, County Library levy, Osgoode Hall Capital levy, Legal Aid levy, Insurance Levy Waiver Fund, Project 200, Technology and Research Infrastructure Fund, Lawyers Fund for Client Compensation levy and LPIC Capitalization levy (1997 only). Membership fees and levies are recorded when billed. With the exception of the Lawyers Fund for Client Compensation, these funds are collected and accumulated in special purpose funds and reported on the Balance Sheet under the Liabilities and Fund Balance section. The amounts collected for the Lawyers Fund for Client Compensation are treated as flow through amounts and have no impact on the General Fund. Separate financial statements have been prepared for the Lawyers Fund for Client Compensation.

The General Fund recovers certain costs from the Lawyers Fund for Client Compensation for administrative expenses. These recoveries are treated as offsetting administrative expenses of the General Fund. The total amount recovered during the year was \$1,023,000 (December 31, 1997 - \$1,023,000).

#### 6. Lawyers' Professional Indemnity Company Capitalization

In October 1994, Convocation approved the Report to Convocation of the Insurance Task Force and the Insurance Committee. As part of that report, it was approved that a portion of the general membership fee (\$600 per member annually) would be collected to provide for capital in LPIC over a four year period. In 1997, LPIC reported to Convocation that based on its financial results, LPIC was fully capitalized. Convocation therefore approved the Society's 1998 Budget eliminating the capitalization levy.

The total amount billed, invested in and paid to LPIC is \$34,504,000. This amount does not appear on the Balance Sheet as an investment in subsidiary rather the annual payments were expensed.

#### 7. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. The plan covers employees of the Society, the Lawyers Fund for Client Compensation and the Legal Aid Plan. The Society matches its employees' contributions to the plan.

The Society's pension expense [excluding the Lawyers Fund for Client Compensation and the Legal Aid Plan] for the year ended December 31, 1998 amounted to \$540,537 (December 31, 1997 - \$530,573)



## GENERAL FUND NOTES TO FINANCIAL STATEMENTS

---

### 8. Commitments

The Society is committed to monthly lease payments for property and computer facilities under leases having various terms up to August 2003. In addition, the Society is committed to a minimum monthly payment to the end of 2003 for its contracted printing and mailroom services. Aggregate monthly payments over the next five years and in total are as follows:

Year	\$000's
1999	1,072
2000	1,081
2001	1,015
2002	876
2003	796
Total	4,840

### 9. Contingent Liabilities

At December 31, 1998, there were three claims against the Society that have arisen as a result of an alleged copyright infringement. The claims have been heard and judgement is pending. At this point in time, it is not possible to assess the extent of the exposure of the General Fund to liability for damages or other monetary relief.

### 10. Comparative Financial Statements

Certain amounts in the comparative financial statements have been reclassified to conform to the current year's presentation. In addition, in accordance with the restricted fund method of accounting as detailed in the CICA Handbook Section 4400, all acquisitions, amortization and other expenditures relating to capital assets must be reported in the Invested in Capital Assets Fund. The Society has traditionally not segregated these items from unrestricted operations for budgeting and financial reporting purposes. To conform to the requirements of the CICA Handbook Section 4400, the 1998 operating surplus has been adjusted to reflect the acquisition and amortization of capital assets in the Invested in Capital Assets Fund, which were budgeted and previously reported in the Unrestricted Fund. In addition, the Statement of Cash Flows reports the consolidated surplus for the General Fund since the specific surplus or deficit for each fund is readily ascertained from the Statement of Fund Balance.

### 11. Uncertainty due to the Year 2000 Issue

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which if not properly addressed, could affect an entity's ability to conduct normal business operations. Management of the Society is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Society and those with whom the Society deals as customers, suppliers or other third parties, will be fully resolved without adverse impact on the operations of the Society.

## Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA:

We have audited the balance sheets of THE LAW SOCIETY OF UPPER CANADA - LAWYERS FUND FOR CLIENT COMPENSATION as at December 31, 1998 and 1997, and the related statements of revenues and expenses and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Toronto, Canada  
March 12, 1999



## LAWYERS FUND FOR CLIENT COMPENSATION

### Balance Sheet

*Stated in thousands of dollars*

*As at December 31*

	1998	1997
<b>ASSETS</b>		
Cash and short-term investments	8,844	2,289
Interest and other receivables	465	387
Portfolio investments, at amortized cost (market value - \$14,211; 1997 - \$18,377)	13,507	17,497
Capital assets, net of accumulated amortization of \$94 (1997 - \$74)	-	20
<b>Total Assets</b>	<b>22,816</b>	<b>20,193</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Accounts payable and accrued liabilities	57	18
Due to the Law Society of Upper Canada General Fund	-	12
Reserve for unpaid grants	11,145	11,238
<b>Total liabilities</b>	<b>11,202</b>	<b>11,268</b>
<b>FUND BALANCE</b>	<b>11,614</b>	<b>8,925</b>
<b>Total Liabilities and Fund Balance</b>	<b>22,816</b>	<b>20,193</b>

*See accompanying notes*

On Behalf of Convocation

*Harvey T. Strussberg*

Treasurer

*[Signature]*

Chair of Finance and Audit Committee

## Statement of Revenues and Expenses and Fund Balance

*Stated in thousands of dollars**Year ended December 31*

	1998	1997
<b>REVENUES</b>		
Annual levy	7,631	24
Investment income	1,542	1,620
<b>Total revenues</b>	<b>9,173</b>	<b>1,644</b>
<b>EXPENSES</b>		
Grants paid	4,520	4,533
Decrease to reserve for unpaid grants	(93)	(2,126)
Recoveries	(211)	(403)
Provision for unpaid grants	4,216	2,004
Administrative	1,191	1,082
Salaries and benefits	580	331
Audit expenses	347	-
Counsel fees	79	40
Referees and reporters fees	51	13
Amortization	20	29
<b>Total expenses</b>	<b>6,484</b>	<b>3,499</b>
Surplus (deficit)	2,689	(1,855)
Fund balance, beginning of year	8,925	10,780
<b>Fund balance, end of year</b>	<b>11,614</b>	<b>8,925</b>

*See accompanying notes*



## LAWYERS FUND FOR CLIENT COMPENSATION

### Statement of Cash Flows

*Stated in thousands of dollars*

*Year ended December 31*

	1998	1997
<b>OPERATING ACTIVITIES</b>		
Surplus (deficit)	2,689	(1,855)
Items not affecting cash:		
Amortization	20	29
Experience loss of reserve for unpaid grants	4,216	2,004
Other operating sources (uses) of cash:		
Accounts receivable	(78)	135
Recoveries	211	403
Accounts payable and accrued liabilities	39	(355)
Due to the Law society of Upper Canada	(12)	(210)
Grants paid	(4,520)	(4,533)
<b>Total operating activities</b>	<b>2,565</b>	<b>(4,382)</b>
<b>FINANCING ACTIVITIES</b>		
Portfolio investments	3,990	1,878
<b>Net increase (decrease) in cash and short-term investments during the year</b>	<b>6,555</b>	<b>(2,504)</b>
Cash and short-term investments, beginning of year	2,289	4,793
<b>Cash and short-term investments, end of year</b>	<b>8,844</b>	<b>2,289</b>

*See accompanying notes*

## Notes to Financial Statements

For the year ended December 31, 1998

(Stated in whole dollars except where indicated)

### 1. Description of Fund

The Lawyers Fund for Client Compensation (the “Fund”) is maintained by The Law Society of Upper Canada (the “Society”) pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member’s law practice or in connection with any trust of which the member was or is a trustee. The fund is financed by members’ annual assessments and investment income.

The Fund is not subject to income or capital taxes because it is a fund of the Society, a not-for-profit corporation.

The *Law Society Amendment Act, 1998* received royal assent in December 1998 and comes into force on February 1, 1999. This Act makes substantive and important amendments to the *Law Society Act*, including a restructuring scheme of professional governance based on the authority in the statute. The *Law Society Amendment Act, 1998*, authorizes the Society to make regulations, by-laws and rules of practice and procedure as a means of governing all proceedings described in the Act.

Certain services are provided by the General Fund of the Society to the Fund. The cost of these services is included in administrative expenses. The charges for the year amount to \$1,023,000 (1997 - \$1,023,000).

### 2. Significant Accounting Policies

#### *Fund Accounting*

The Lawyers Fund for Client Compensation follows the restricted fund method of accounting. The Fund accounts for the programme delivery, administration and payment of grants from the Fund. The Fund is restricted in use by the Law Society Act.

#### *Cash and short-term investments*

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society’s investment policy. Short-term investments are stated at the lower of cost and market value.

#### *Portfolio investments*

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of government and corporate bonds.

#### *Capital assets*

Capital assets comprise computer software and equipment which are presented at cost net of accumulated amortization. Amortization is charged to expense on a straight-line basis over 5 years, the estimated useful lives of the assets.



## LAWYERS FUND FOR CLIENT COMPENSATION NOTES TO FINANCIAL STATEMENTS

---

### *Grants*

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Fund is at the discretion of Convocation, the governing body of the Society. Grants paid are subject to a \$100,000 limit per applicant. A reserve for unpaid grants is recorded as a liability on the balance sheet. This reserve represents an estimate of the present value of grants to be paid for unprocessed claims and the associated administrative costs, as determined by an actuary. The related grant expense represents grant payments during the year plus the current year experience gain/loss of the reserve for unpaid grants, net of recoveries.

### *Financial instruments*

The estimated fair value of cash and short-term investments, interest, other receivables, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

### 3. Measurement Uncertainty

The valuation of unpaid grants anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimations and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates. No provision has been made for otherwise unforeseen changes to the legal or economic environment in which claims are settled, nor for causes of loss which are not already reflected in the historical data. Management believes that the techniques employed and assumptions made are appropriate and the conclusions reached are reasonable given the information currently available. Estimates of unpaid grants are reviewed at least annually by an actuary and, as adjustments become necessary, they are reflected in current operations.

### 4. Comparative Financial Statements

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

### 5. Uncertainty due to the Year 2000 Issue

Most entities depend on computerized systems and therefore are exposed to the Year 2000 conversion risk, which if not properly addressed, could affect an entity's ability to conduct normal business operations. Management of the Society is addressing this issue, however, given the nature of this risk, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Fund and those with whom the Fund deals as customers, suppliers or other third parties, will be fully resolved without adverse impact on the operations of the Fund.

## Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA

We have audited the combined balance sheet of The Law Society of Upper Canada-Errors and Omissions Insurance Fund as at December 31, 1998 and the combined statements of revenue and expenses and surplus/deficit, and of changes in financial position for the year then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with 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 combined financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Toronto, Ontario

February 10, 1999

## Actuary's Report

*For Combined Financial Statements at 31 December 1998*

### ROLE OF THE VALUATION ACTUARY

The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in their capacity as managers of the Law Society of Upper Canada Errors and Omissions Insurance Fund. With respect to the preparation of these combined financial statements, the actuary is required to carry out a valuation of the claims liabilities and to report thereon to the Audit Committee, and through them to the membership of the Law Society. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, and regulatory requirements. The scope of the valuation encompasses the claims liabilities, that is the provision for unpaid claims and adjustment expenses on claims incurred and reported prior to 31 December 1998, the date of these combined financial statements.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Errors and Omissions Insurance Fund, the Lawyers' Professional Indemnity Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the Law Society and the Lawyers' Professional Indemnity Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

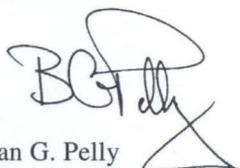
### VALUATION ACTUARY'S REPORT

I have valued the claims liabilities arising on the errors and omissions insurance coverage arranged by the Law Society of Upper Canada for its Errors and Omissions Insurance Fund combined balance sheet as at 31 December 1998, and their changes in its combined statement of revenue and expenses and surplus/(deficit) for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, it is the actuary's responsibility to assess the recoverability of claims under reinsurance contracts. As referenced in Note 3 to the combined financial statements, the claims data provided for this valuation may not be consistent with the ultimate resolution of ongoing discussions with regard to coverage for the period 1 July 1982 to 30 June 1989 between the Law Society of Upper Canada and American Home Assurance Company, the insurer above the policy deductible throughout this period. With the express understanding of the management and Audit Committee of the Lawyers' Professional Indemnity Company and the external auditor, this valuation uses the historical data as provided, without any explicit provision or adjustment for this potential issue.

In my opinion, the amount of the claims liabilities makes appropriate provision for all such obligations, except as noted in the previous paragraph, and the financial statements fairly present the results of the valuation.

Toronto, Ontario  
February 10, 1999

  
Brian G. Pelly  
Fellow, Canadian Institute of Actuaries

## Combined Balance Sheet

*Stated in thousands of dollars*

*As at December 31*

	1998	1997
<b>ASSETS</b>		
Investments ( <i>note 4</i> )	217,653	175,359
Cash and short-term investments	6,662	9,762
Investment income due and accrued	2,589	2,135
Accounts receivable	9,861	6,043
Reinsurers' share of provision for unpaid claims and adjustment expenses ( <i>note 6</i> )	155,404	139,271
<b>Total assets</b>	<b>392,169</b>	<b>332,570</b>
<b>LIABILITIES AND SURPLUS/(DEFICIT)</b>		
Provision for unpaid claims and adjustment expenses ( <i>notes 3 and 6</i> )	337,140	332,152
Accounts payable and accrued liabilities	11,330	11,527
Surplus/(deficit) ( <i>note 5</i> )	43,699	(11,109)
<b>Total liabilities and surplus/(deficit)</b>	<b>392,169</b>	<b>332,570</b>

*See accompanying notes*

On behalf of the Convocation:

*Harvey T. Strusberg*

Treasurer

*[Signature]*

Chair of Finance and Audit Committee



## ERRORS AND OMISSIONS INSURANCE FUND

### Combined Statement of Revenue and Expenses and Surplus/(Deficit)

*Stated in thousands of dollars*

*Year Ended December 31*

	1998	1997
<b>REVENUE</b>		
Members' levies (note 7)	117,988	123,516
Reinsurance commissions	8,400	7,950
Investment income	10,825	10,703
Other revenue	1,611	2,108
<b>Total revenue</b>	<b>138,824</b>	<b>144,277</b>
<b>EXPENSES</b>		
Net claims and adjustment expenses (notes 3 and 6)	28,236	32,230
Reinsurance premiums	40,515	44,013
General expenses	8,480	6,705
Premium taxes	2,396	2,600
Provision for income taxes	4,389	5,418
<b>Total expenses</b>	<b>84,016</b>	<b>90,966</b>
Excess of revenue over expenses	54,808	53,311
Deficit, beginning of period	(11,109)	(78,283)
Capital contributed by General Fund	-	13,863
<b>Surplus/(deficit), end of period (note 5)</b>	<b>43,699</b>	<b>(11,109)</b>

*See accompanying notes*

## Combined Statement of Changes in Financial Position

*Stated in thousands of dollars*

*Year Ended December 31*

	1998	1997
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	<b>54,808</b>	53,311
Other operating sources (uses) of cash:		
Provision for unpaid claims and adjustment expenses	<b>4,988</b>	6,958
Income taxes	-	(3,714)
Accounts receivable	<b>(3,818)</b>	(1,830)
Recoverable from reinsurers	<b>(16,133)</b>	(14,544)
Accounts payable and accrued liabilities	<b>(197)</b>	(319)
Investment income due and accrued	<b>(454)</b>	(353)
<b>Total funds provided by operating activities</b>	<b>39,194</b>	39,509
<b>FINANCING ACTIVITIES</b>		
Purchases of investments, net	<b>(42,294)</b>	(64,833)
Capital contributed by General Fund	-	13,863
<b>Net change in cash and short-term investments</b>	<b>(3,100)</b>	(11,461)
Cash and short-term investments, beginning of period	<b>9,762</b>	21,223
<b>Cash and short-term investments, end of period</b>	<b>6,662</b>	9,762

*See accompanying notes*

## Notes to Financial Statements

For the year ended December 31, 1998

(Stated in whole dollars except where indicated)

### 1. The insurance program and its risk retention and reinsurance structure

The combined financial statements of the Errors and Omissions Insurance Fund account for the net results of the professional liability insurance program of the Law Society of Upper Canada ("the Society"). The program requires practicing members to pay annual levies to fund the anticipated costs of professional liability claims made in each annual policy period. Indemnification of members is subject to the terms of the insurance policy, including financial limits per claim and aggregate limits per member in each policy period.

These financial statements combine the results of operations and the financial positions of:

- the Errors and Omissions Insurance Fund of the Society, the fund originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment; and
- Lawyers' Professional Indemnity Company ("LPIC"), a wholly owned subsidiary of the Society that was incorporated in 1990 and licensed as an insurer in Ontario, Newfoundland, and Nova Scotia.

The risk retention and reinsurance structures employed through these two entities are described in the following paragraphs.

Prior to July 1, 1990, the Society's Errors and Omissions Insurance Program was underwritten by various insurance carriers subject to a policy deductible. LPIC took over the underwriting of the program commencing July 1, 1990. The Society maintained financial responsibility for the policy deductible through to December 31, 1994. The policy deductible was a combination of a group deductible and the individual member deductible. For the periods noted below, the combined policy deductibles were as follows:

July 1982 to June 1986	\$ 100,000 per occurrence
July 1986 to June 1988	\$ 150,000 per occurrence
July 1988 to June 1990	\$ 250,000 per occurrence
July 1990 to December 1991	\$ 200,000 per occurrence
January 1992 to December 1994	\$ 250,000 per occurrence

The Society arranged Stop Loss reinsurance that limited the aggregate exposure to group deductibles. The Stop Loss limits were as follows:

July 1982 to June 1983	\$ 8,605,894
July 1983 to June 1984	\$ 8,903,588
July 1984 to June 1985	\$10,000,000
July 1985 to June 1986	\$12,250,000
July 1986 to June 1987	\$20,000,000
July 1987 to June 1988	\$22,000,000
July 1988 to June 1989	\$27,000,000

The Society was not able to arrange Stop Loss reinsurance on its group deductible after the policy period ending June 1989. As a result, the full financial risk of the deductible rested with the Society, from July of 1989 through the policy period ended December 1994.

LPIC also had a net retention over the policy's group deductible as follows:

- July 1, 1990 to December 31, 1991: LPIC is liable for \$50,000 of all individual losses in excess of \$200,000;
- January 1, 1992 to December 31, 1992: LPIC is liable for an aggregate of \$2,500,000 from individual losses incurred in excess of \$250,000 plus a further 10% of all losses above \$250,000 once the initial \$2,500,000 limit has been reached; and
- January 1, 1993 to December 31, 1994: LPIC is liable in each policy year for an aggregate of \$4,000,000 if incurred losses are above or exceed \$250,000 plus a further 10% of all losses in excess of \$250,000 once the initial \$4,000,000 limit has been reached.

It was decided, effective January 1, 1995, to eliminate the self-insured group deductible. Commencing January 1, 1995, 100% of the risk over the individual member deductible is insured within LPIC. LPIC in turn reinsures 50% of its risk retention to third party Canadian licensed reinsurers. The policy limits for the period January 1, 1998 through December 31, 1998 are \$1 million per claim and \$2 million per member in aggregate.

## 2. Significant Accounting Policies

These combined financial statements have been prepared in accordance with generally accepted accounting principles. The most significant accounting policies are as follows:

### *Members' Levies*

Members' levies are recorded when billed with the exception of those based on volume or transactions. These latter two levies, first introduced in 1995, are recorded on a cash basis based on members' filings.

### *Investments*

Investments in debt securities are recorded at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in common or preferred shares are carried at cost. Gains and losses on investments are included in investment income when realized.

### *Claims related balances*

#### *a) Provision for unpaid claims and adjustment expenses*

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and delayed reporting and it is an estimation of the ultimate net cost of all insurance claims to December 31, 1998. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

The provision for unpaid claims is presented net of a discount that reflects an estimation of the investment income that will be earned on funds until they are paid out in settlement of claims. Accordingly, the provision as recorded represents fair value. The estimation of the discount is based on anticipated investment rates of return and experience with payout patterns on similar types of claims.

#### *b) Reinsurers' share of provisions for unpaid claims and adjustment expenses*

Expected reinsurance recoveries on unpaid claims and adjustment expenses, are recognized as assets at the same time and using principles consistent with the Society's method for establishing the related liability.

*c) Members' Deductibles*

The insurance policy calls for insured members to pay deductibles ranging from Nil up to \$25,000. Expected deductible recoveries on paid and unpaid claims, are recognized net of any required provision for uncollectible accounts, using principles consistent with the Fund's method for establishing the related claims liability.

*Income taxes*

Income taxes are recorded on the tax allocation basis, whereby income taxes are recorded in the period in which transactions affect income, regardless of when such transactions are recognized for income tax purposes.

### 3. Measurement Uncertainty

The settlement of professional liability claims involves processes, the outcome of which is inherently uncertain. Consequently, the estimation of the ultimate settlement costs of claims made to date, that underlies the provision for unpaid claims and adjustment expenses, involves measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors, which could vary as the claims are settled. Ultimate costs incurred will inevitably vary from current estimates, to some extent. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provision for unpaid claims and adjustment expenses is adequate. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

Further, the nature of the insurance coverage, the risk retention and reinsurance structure and various management practices, including claims handling and settlement practices, were modified, commencing in late 1994, by the new management of the program. These modifications were designed to better control the level and incidence of costs incurred by the program. However, the effects of these modifications cannot be precisely measured so soon after their implementation.

There is also measurement uncertainty inherent in the estimation of reinsurance recoveries and members deductible recoveries. Management is satisfied that appropriate provisions have been made for potentially unrecoverable amounts and believes that any remaining exposure will prove immaterial to these financial statements.

The Society is engaged in litigation with the reinsurer of the program during the 1982-1989 period surrounding an issue of allocation of certain costs of defense and investigation. The ultimate amount claimed in the dispute is not determinable at this time as it is largely dependent on future claims settlements. Management believes its own interpretation to be consistent with the contract between the parties as well as established insurance practice and that it has established appropriate reserves for any potential exposure.

#### 4. Investment Information

The Fund holds a diversified portfolio consisting of securities with investment grades of "A" or better.

*Estimated fair values and unrealized gains and losses*

The book values, estimated fair values and unrealized gains on investments as at December 31 were as follows:

(000's)	1998			1997		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	204,859	206,868	5.0	169,962	171,264	4.9
Common Shares	12,794	12,937		5,397	5,284	
	<u>217,653</u>	<u>219,805</u>		<u>175,359</u>	<u>176,548</u>	

The estimated fair values of debt securities and common shares are based on quoted market values.

*Liquidity and interest rate risk*

The maturity profile of debt securities as at December 31, 1998 is as follows:

(000's)	Within 1 Year	1 to 3 Years	Over 3 Years	Book Value
Debt securities	5,822	112,859	86,178	204,859
Percent of total	3%	55%	42%	

Common shares have no specific maturities.

#### 5. Surplus/(Deficit)

The Surplus of the Fund includes LPIC's capital and surplus. At December 31, 1998 the Statutory Capital, Surplus and Reserves of LPIC, as reported under insurance regulatory reporting, was \$53.4 million (1997- \$47.9 million)

#### 6. Claims and Adjustment Expenses

*Reinsurance Ceded*

To limit losses through the spreading of risks, the Society cedes reinsurance to other insurers.

Net claims and adjustment expenses presented in the statement of revenue and expenses are net of reinsurance ceded in the amounts of \$37,130,000 (1997 - \$34,634,000).

In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Society is liable for such amounts.

#### 7. Members' Levies

Members' levies for the 1998 year include annual base levies of \$4,650 per member, decreased by \$500 from 1997. Additional levies are charged based on a member's claims history, status, and member filings on transactions and volume of billings. In 1998, additional levies totaled \$37,240,000.



## ERRORS AND OMISSIONS INSURANCE FUND NOTES TO FINANCIAL STATEMENTS

---

### 8. Commitments

The Fund is committed to monthly lease payments under an agreement in effect until January 31, 2002.

Annual lease payments in each of the next three years are \$860,000.

The Society has guaranteed loans, made by lending institutions, to members, which totaled \$10,000 (1997-\$100,000). These arose prior to 1995. The loans were made to finance members deductibles in respect of claims paid by the program.

### 9. Taxation

The Errors and Omissions Insurance Fund is not subject to income or capital taxes because it is a fund of a not-for-profit corporation. LPIC is subject to taxes.

### 10. Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CHANGES IN THE MEMBERSHIP OF CONVOCATION

APPOINTMENTS

Hope Sealy was appointed to the Immigration and Refugee Board on April 20, 1998.

Harriet Sachs was appointed to the Ontario Court (General Division) on November 25, 1998.

NEW BENCHER

Jennifer E. Keenan was elected a bencher to fill the vacancy resulting from the appointment to the bench of Harriet Sachs.

DEATHS

The Rt. Honourable Brian Dickson, Honorary Bencher and former Chief Justice of the Supreme Court of Canada passed away on October 21, 1998.

BENCHERS OF THE LAW SOCIETY OF UPPER CANADA

*Treasurer*

Harvey T. Strosberg, Q.C.

*Elected Benchers*

Robert B. Aaron  
 W. Michael Adams  
 Robert P. Armstrong, Q.C.  
 Nancy L. Backhouse  
 Larry A. Banack  
 Gordon Z. Bobesich  
 Thomas J.P. Carey  
 Kim A. Carpenter-Gunn  
 William D.T. Carter  
 Thomas E. Cole  
 Paul D. Copeland  
 Eleanore A. Cronk  
 Marshall A. Crowe  
 Carole Curtis  
 Elvio L. DelZotto, Q.C.  
 Mary A. Eberts, LSM  
 Philip M. Epstein, Q.C.  
 Abraham Feinstein, Q.C.

Neil Finkelstein  
 Gary L. Gottlieb, Q.C.  
 Jane Harvey  
 Jennifer E. Keenan  
 Professor Vern Krishna, Q.C.  
 Gavin A. MacKenzie  
 Ronald D. Manes  
 Frank N. Marrocco, Q.C.  
 Robert Martin  
 W.A. Derry Millar  
 Daniel J. Murphy, Q.C.  
 Ross W. Murray, Q.C.  
 Niels Ortved  
 Helene B. Puccini  
 Heather J. Ross  
 Clayton C. Ruby  
 David W. Scott, Q.C.  
 Tamara K. Stomp  
 Gerald A. Swaye, Q.C.  
 Robert C. Topp  
 Richmond C.E. Wilson, Q.C.  
 Bradley H. Wright

*Appointed Benchers*

Nora Angeles  
 Abdul Ali Chahbar  
 Shirley O'Connor

*Ex-Officio Benchers*

The Hon. John D. Amup, Q.C., LSM  
 F.M. Cass, Q.C.  
 Ronald W. Cass, Q.C., LSM  
 John T. Clement, Q.C.  
 Austin M. Cooper, Q.C.  
 E. Susan Elliott  
 G.H.T. Farquharson, Q.C.  
 Patrick G. Furlong, Q.C., LSM  
 Edwin A. Goodman, Q.C.  
 The Hon. Howard G. Hampton, M.P.P.  
 The Hon. Charles A. Harnick, Q.C.  
 Robert Kemp-Welch, Q.C.  
 Paul Lamek, Q.C.

Donald H.L. Lamont, Q.C., LSM  
 The Hon. Allan Lawrence, P.C., Q.C.  
 Laura L. Legge, Q.C.  
 Samuel Lerner, Q.C.  
 The Hon. G. Arthur Martin, Q.C.  
 Brendan O'Brien, Q.C.  
 The Hon. Alan W. Pope, Q.C.  
 The Hon. Sydney L. Robins  
 The Hon. Allan M. Rock, P.C., Q.C.  
 Arthur R.A. Scace, Q.C.  
 Ian G. Scott, Q.C.  
 Nathan Strauss, Q.C.  
 J. James Wardlaw, Q.C., LSM  
 Roger D. Yachetti, Q.C.

*Honorary Benchers*

Her Majesty Queen Elizabeth, The Queen Mother  
 The Right Honourable Margaret Thatcher  
 The Honourable Lincoln M. Alexander, Q.C.

His Royal Highness Prince Charles, Prince of Wales  
 Kenneth P. Jarvis, Q.C., RCA



## SENIOR MANAGEMENT

---

CHIEF EXECUTIVE OFFICER

John Saso  
416-947-3308

SECRETARY

Richard Tinsley  
416-947-3344

CHIEF FINANCIAL OFFICER

Wendy Tysall  
416-947-3322

DIRECTOR OF EDUCATION

Bob Bernhardt  
416-947-3399

DIRECTOR OF HUMAN RESOURCES

Laura Cohen  
416-947-3396

CHIEF INFORMATION OFFICER

Gordon Lalonde  
416-947-3397

EQUITY ADVISOR

Charles Smith  
416-947-4052

DIRECTOR OF CUSTOMER SERVICE

Dolly Konzelmann  
416-947-5254

DIRECTOR OF CHANGE INTEGRATION & COMMUNICATIONS

Gemma Zecchini  
416-947-7624

.....

PRESIDENT OF THE LAWYERS' PROFESSIONAL INDEMNITY COMPANY

Malcolm Heins  
416-598-5801

WEDNESDAY, MAY 12, 1999

OSGOODE HALL, TORONTO

ORDER OF BUSINESS

Minutes of the previous annual general meeting

Report of the work of the Society and the committees of the Society and Convocation

Presentation of the audited financial statements

Matters of professional interest that are directly related to the work of the Society

Motions (no motions were submitted by members of the profession)



## NOTES

---

A series of horizontal dotted lines for writing notes.



**OSGOODE HALL**

**130 QUEEN STREET WEST**

**TORONTO, ONTARIO M5H 2N6**

**416-947-3300**

**1-800-668-7380**

**[www.lsuc.on.ca](http://www.lsuc.on.ca)**