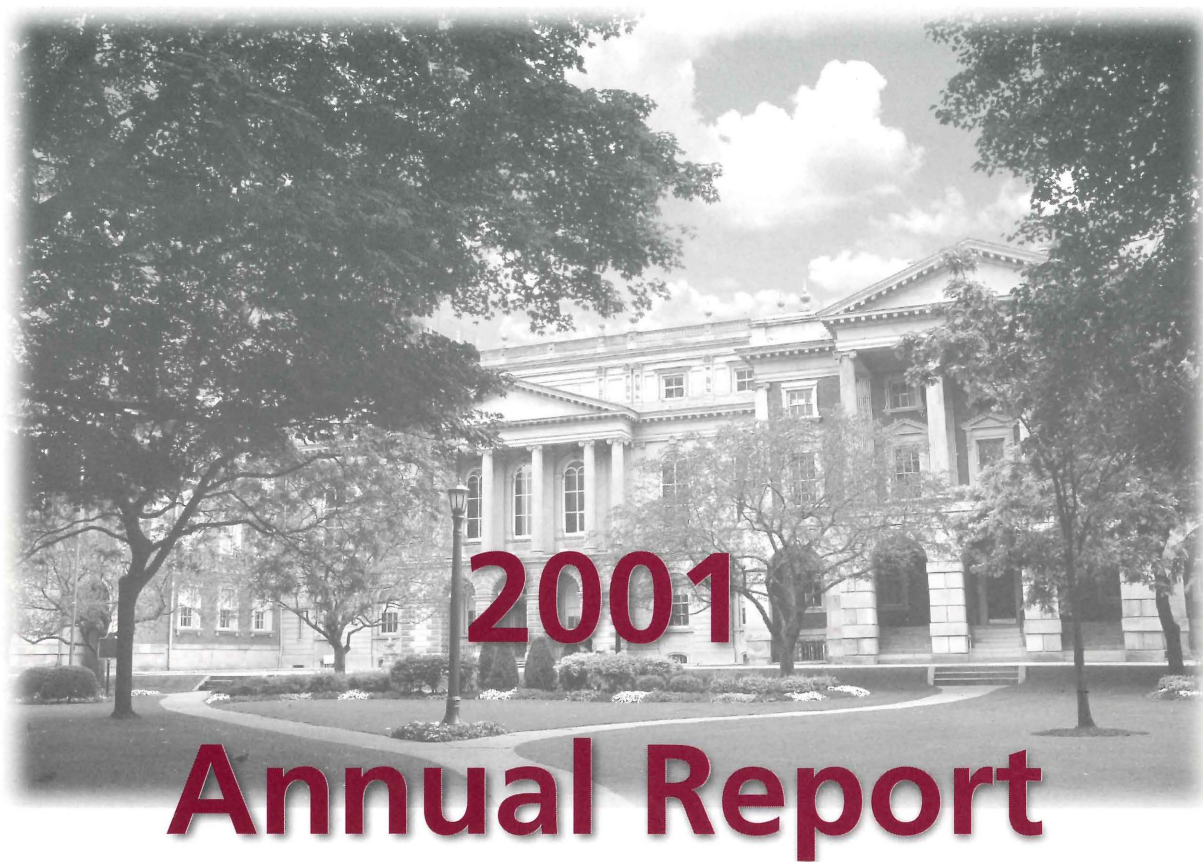




The Law Society of
Upper Canada

Barreau
du Haut-Canada



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

2	INTRODUCTION
3	MESSAGE FROM THE TREASURER
7	MESSAGE FROM THE CHIEF EXECUTIVE OFFICER
12	STATISTICS AT A GLANCE
15	FINANCIAL STATEMENTS
58	CONVOCATION MEMBERSHIP
59	SENIOR MANAGEMENT
59	ANNUAL GENERAL MEETING

Ce document est aussi disponible en français.

THE LAW SOCIETY OF UPPER CANADA

Formed on July 17, 1797, and incorporated in 1822, The Law Society of Upper Canada is the organization responsible for governing Ontario's legal profession in the public interest. The Law Society educates, admits and regulates the province's lawyers.

The Law Society's affairs are governed by directors known as benchers – most of whom are lawyers elected by the profession and some of whom are non-lawyers appointed by the provincial government.

THE ROLE 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:

.....

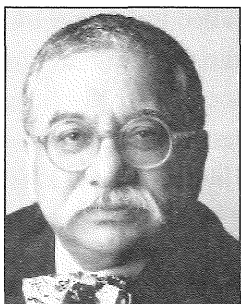
ensuring that the people of Ontario are served by
lawyers who meet high standards of learning, competence
and professional conduct; and

.....

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

.....

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



It was a great honour for me to be elected Treasurer of the Law Society in June 2001. Having served as a bencher for 10 years, and former Chair of the Finance and Audit Committee, I feel privileged to have been selected to lead the Law Society during these challenging times.

The year 2001 was marked by many issues and a tragedy that without question significantly altered the societal and legal landscape for years to come. In the face of these changes, the Benchers and I continued to focus on priorities to fulfill the Law Society's mandate to protect the public interest, uphold the independence, integrity and honour of the legal profession, and advance the cause of justice and the rule of law.

Factors such as new legislation, technological advances and industry trends continue to shape Ontario's legal profession, creating ongoing pressure on the Law Society to assist members in adapting to the changing landscape in which they must work, operate and succeed. Our challenge as regulator is to work with these factors, maximizing our effectiveness in governing the profession in the public interest, and proactively seeking out and offering programs and services that support the continuous development and competence of our members. At the same time, we must strike a balance between what we see as required funding to fulfill our mandate, with sensitivity to our membership's ability to pay.

I am proud to have laid the groundwork for the first budget in many years where Law Society membership fees were reduced. Convocation approved the 2002 budget in October, setting the Law Society annual fee at \$1,618 per member, representing a 10% reduction from the previous year. Combined with the \$100 drop in base premium for the Lawyers' Professional Indemnity Company (LPIC), it's a meaningful reduction.

We have an important regulatory role mandated by statute. Yet we must remember that self-regulation is by no means a guarantee, as evidenced in other self-regulating professions and jurisdictions. What becomes clear from such examination is that we can only have self-regulation if we have the public's confidence, and demonstrate that we are serving the public interest. The budget we passed for 2002 enables us to continue to improve the timeliness and transparency of our complaints process, communicate more effectively with members and the public, and increase services to help lawyers.

PROTECTING THE PUBLIC INTEREST

The tragedy of September 11 cast a far-reaching effect on the world around us, leading to developments and changes in Canadian law that have impacted on the rights and freedoms we know and cherish in this country. Our mandated responsibility as protector of the public interest demands that we work to ensure the continued protection of the public's legal rights in the midst of these important landmark developments.

The Law Society, in a strong united voice with law societies across the country, called for changes to Bill C-36, the federal government's anti-terrorism legislation, in a submission to the Senate Committee which reviewed the bill. The submission, by the Federation of Law Societies of Canada, raised serious concerns about the bill, in particular the right of individuals to representation by independent legal counsel and client confidentiality and privilege when dealing with their lawyer.

It is important for the Law Society to raise concerns in the public domain when we see that fundamental rights may be eroded. We take seriously the right of Canadians to be represented by a lawyer, and to be assured that their communications with lawyers remain confidential. We agree that society must be protected from the threat of terrorists and terrorism, but that this threat must not force us to abandon those very things that make us a free society.

The Law Society also actively supported the Federation in a challenge to the *Proceeds of Crime (Money Laundering) Act*. Protecting society against crimes such as money laundering is important. Again, the Act goes too far in taking rights away from average Canadians. Reporting rules in this law force lawyers to act as informants against their clients, divulging private financial information to a government agency, without being able to tell clients what they are doing. It erodes solicitor-client confidentiality, and in so doing creates a whole dynamic of mistrust between client and lawyer, and ultimately, the justice system.

Following a decision in British Columbia that temporarily exempted lawyers in that province from complying with the Act, the federal Minister of Justice declined to make the decision applicable to lawyers across Canada. The Federation of Law Societies was therefore forced to challenge the legislation on a province-by-province basis. Courts in every jurisdiction that have heard the matter, including Ontario, have given lawyers a temporary exemption from reporting requirements in the legislation. We continue to actively support the Federation as challenges and appeals proceed.

PROFESSIONAL DEVELOPMENT AND COMPETENCE

Access to, and delivery of competent legal services are integral requirements for the effective administration of justice, preservation of the rule of law, and for maintaining the independence of the Bar and self-regulation of the profession. It is this understanding and legislative requirements that have framed our extensive undertaking to develop and implement a competence mandate for Ontario lawyers that addresses both our obligation to regulate in the public interest, and to support members in their efforts to maintain their own competence.

Following extensive consultations with the profession across the province in 2000, the Professional Development and Competence Committee presented a final report with recommendations on implementing our new competence mandate to Convocation in March 2001. The model approved by Convocation is a professional development model, which reinforces the essential component of individual commitment to maintaining and enhancing competence throughout one's career. It also reinforces the Law Society's commitment to supporting lawyers in their life-long learning through the provision of relevant, accessible and affordable programs and services.

One component of the competence model described and approved in the March 2001 report included minimum expectations for professional development. These were approved by Convocation in 2002, requiring members to report the self-study and continuing legal education they undertake each year, in the Member's Annual Report. Reporting mechanisms such as this are necessary not only as a regulatory measure, but also for promoting public confidence in our ability to effectively self-regulate. They serve as a litmus test to validate the commitment of lawyers to maintaining and enhancing their competence.

PROFESSIONAL CORPORATIONS

The Professional Corporations Act was proclaimed in 2001, allowing lawyers to practise law through a professional corporation, without limited liability. The Schedule to Bill 152, *Balanced Budgets for Brighter Futures Act, 2000*, came into force on November 1, 2001, amending the *Law Society Act* to permit lawyers to carry on the practice of law through a corporation.

In paving the way for lawyers to benefit from this important initiative, the Law Society created By-law 34, Professional Corporations. It covers among other things, the name, structure and registration requirements for a professional corporation.

INTER-JURISDICTIONAL MOBILITY

A great deal of work was done in 2001 on the issue of inter-jurisdictional mobility, here in Ontario and nationally. At the annual meeting of the Federation of Law Societies, a National Task Force on Inter-jurisdictional Mobility was struck. As Chair of this Task Force, I have been working with others across the country examining what is needed to break down barriers between provinces, to enhance mobility of lawyers from one end of the country to the other.

Enhanced mobility is an issue that impacts many members and provides greater access to more markets, more clients and additional areas of practice. By removing barriers that encumber mobility, the economic ability of lawyers will be enhanced, while fostering greater access to justice by allowing lawyers to service clients seamlessly across borders. With these benefits will come an increased need for professional development and competence, particularly in meeting the needs of clients from new and diverse communities, and in keeping abreast of new and changing laws, technologies and practices. A mobility agreement is already in place in the western provinces, and the Maritimes are also laying the foundation for an arrangement.

In 2001, the Task Force undertook consultations and developed recommendations, which were recently presented in an interim report to the Federation and to provincial and territorial law societies. The interim report, outlining a general approach and next steps to be taken by the Task Force, was approved in principle at the 2002 mid-winter meeting of the Federation, and also by Convocation in February 2002. The Task Force will now focus on working out the details of the final report as well as issues raised at the winter meeting.

ACCESS TO JUSTICE

All people in Ontario are entitled to fair and equal access to the law, and therefore, require access to competent, professional and affordable legal advice and services. As we strive to be competitive and enhance our profitability by exploring new trends and business opportunities, we cannot lose sight of the 'human face' of what we do – serving the public, and making legal services accessible to those most vulnerable in our society, as well as to ordinary working Canadians.

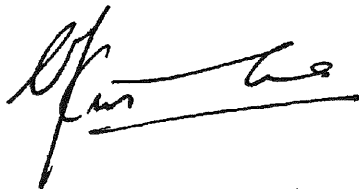
In 2001, the Law Society continued to promote access to justice through its programs and services. Our Lawyer Referral Service continues to be one of the most popular methods for the public to find a lawyer, and our directory of certified specialists continues to help connect people in need to appropriate legal services.

The Law Society also helps to promote access to justice by urging governments at all levels for changes that would make legal services more accessible and affordable to all. We've communicated with government and continue to promote the inclusion of contingency fees in Ontario and increasing legal aid tariffs for Legal Aid lawyers.

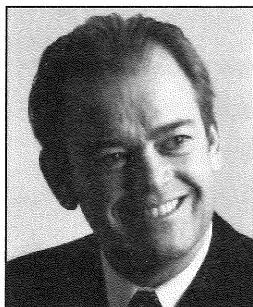
We also continued to support and bring together providers of pro bono services with people who require their services. In 2001, we were pleased to help create and launch Pro Bono Law Ontario, an umbrella organization that will coordinate the delivery of pro bono services across the province. As well, we supported public outreach initiatives of the Chief Justice of Ontario's Public Legal Education Task Force, which is working to enhance the public's understanding of the justice system in Ontario through education and information initiatives.

Moving forward, the Benchers and I will continue to keep these and other important issues that affect the legal profession and the public interest as our priority. With 2002 well underway, I feel great confidence about the direction in which we are headed. Much of the work undertaken in 2001 has laid the groundwork for activities that are now in progress. Particularly, the Law Society will continue to support the work of the Federation of Law Societies as challenges, and appeals to the *Proceeds of Crime (Money Laundering) Act* continue. As well, there is much work to be done as we continue to implement our competence mandate and provide the tools and resources to assist members. I look forward to reporting the progress we make on issues of great importance to those we serve - members of the public and the profession.

I thank you for allowing me the privilege to serve the profession and look forward to meeting with members on my visits to your hometowns.



Professor Vern Krishna, Q.C., FRSC, F.C.G.A.
Treasurer



The year 2001 was a year defined by tremendous activity at the Law Society. In my first full year as Chief Executive Officer, my primary focus was to implement improvements to build a strong operational foundation for the Law Society. These changes are two-fold: to assist us to more efficiently and effectively deliver on our mandate to govern the

profession in the public interest, and to support members in their commitment to professional development, competence and quality service.

2001 was a good year financially for the Law Society. Prudent financial management, focused activities that supported our dual mandate, and a reorganization of Law Society functions in May 2001, allowed us to achieve an operating budget surplus of \$5.4 million. Our membership also increased by approximately 1,200 new members, of which, for the first time, more women than men were called to the Bar. This brought membership in the Ontario Bar to 31,479 members, which continues to be the largest Bar in the country.

LAW SOCIETY REORGANIZATION PLAN

Convocation's approval of recommendations in support of the Law Society's competence mandate in March 2001 provided an ideal opportunity to take a fresh look at our organization and to make appropriate changes, ensuring we had the infrastructure to implement this priority.

These changes clearly differentiate the Law Society's complaints and discipline functions from the role we play in assisting members' professional development and competence. We moved areas such as Complaints Resolution, which resolves complaints in a collaborative and informal manner, to the Professional Regulation division. It is now under the same structure as Investigations and Discipline, which also deal with complaints.

Similarly, Specialist Certification and Continuing Legal Education are now part of Professional Development and Competence, a division that is responsible for all programs that assist members in providing the most competent, quality legal services to the public.

The Client Service Centre continues to be the primary point of contact for members of the public and the profession. All complaints received at the Law Society initially come through the Centre and are streamed to either Complaints Resolution or to Investigations. As well, the Centre receives member inquiries and processes member annual forms and filings.

This realignment of responsibilities has better positioned the Law Society to deliver the services needed to assist the professional development and competence of members, while enhancing the credibility of the Law Society as a regulatory body.

THE YEAR IN REVIEW

I want to thank the Law Society employees who helped us successfully deliver these programs and services. These employees are knowledgeable, have a strong client service orientation and are skilled at what they do – all key attributes required in an organization such as ours. Here are some highlights of our achievements in 2001:

- The Client Service Centre, in its second year of operation, continued to be the front-line, one-stop access point for members of the profession and the public. In 2001, the Centre handled more than 515,000 calls, letters, e-mails, faxes and in-person inquiries.
- The Lawyer Referral Service (LRS) continues to be a popular way for the public to find a lawyer. In 2001, the Law Society received 51,000 calls from people looking for a lawyer on the 1-900 number, with 95% of those calls being answered within 25 seconds. Another 30,500 calls were received on the LRS toll-free crisis line, which is available to those in crisis situations such as domestic abuse. More than 2,000 lawyers across Ontario are registered with the LRS.
- The new Professional Development and Competence (PD&C) division focused on supporting members in enhancing their skills and knowledge. In preparation for the implementation of our competence mandate, PD&C commenced work on the new minimum continuing legal education expectations. These minimum expectations took effect in 2002 and impact all members. New practice management guidelines were also developed to assist members with their everyday practice.

Advisory Services remained a popular avenue for members to access practice advice and information. Staff in this area assisted 5,700 callers on topics such as the *Rules of Professional Conduct*, ethical and practice issues, as well as emerging issues and trends. We served as an important resource to members providing information and advice with respect to the *Proceeds of Crime (Money Laundering) Act*.

- Continuing Legal Education (CLE) continued to be very active, delivering almost 80 programs including Practice Essentials 2001, a series of workshops held in 10 centres across the province, co-sponsored by the Lawyers' Professional Indemnity Company and participating County and District Law Associations. With implementation of our competence mandate now in progress, CLE is gearing up to offer more of the kinds of programs and resources to assist members in meeting the new minimum expectations for professional development.
- The Professional Regulation division, reorganized in 2001, focused on making the Law Society's complaints process more timely and transparent. To this end, we have implemented a new electronic tracking system to monitor complaints. This will assist us in 2002 to move complaints through the process more quickly. We also created a new section on the Law Society web site to help the public better understand our complaints process.

In 2001, we took in 4,736 complaints against members, of which 2,010 were outside our mandate. Of those within our mandate, 2,396 were streamed to Complaints Resolution to be resolved through informal methods, and 330 to Investigations. The vast majority of complaints sent to Complaints Resolution relate to quality of service and lack of communication and those sent to Investigations usually relate to professional misconduct.

- We launched the Unclaimed Trust Funds Program in 2001. It reduces an administrative burden on members by enabling them to apply, and upon approval, submit to the Law Society unclaimed funds that they have held for at least two years. By early 2002, we had received over 200 applications and collected more than \$250,000 in unclaimed funds.

TECHNOLOGY

Technology continues to be an increasingly important reality of the world in which lawyers practise law. E-mail, research, e-learning, e-commerce, practice software and government services are ever-expanding factors in the lawyer's day. With this development comes ongoing pressure on the Law Society to better meet the demands of lawyers and the public for faster and more convenient access to information and services.

- In 2001, we continued to upgrade our internal technology infrastructure and applications, to build a platform we can leverage in 2002 to better deliver our programs and services through e-commerce, e-forms and e-learning. For example, by compiling e-mail addresses as part of the Member's Annual Report we are developing a database that allows us to send broadcast e-mails to members on time-sensitive issues.
- The Law Society web site, www.lsuc.on.ca, underwent a major transition in mid 2001, as we brought the hosting and management of the site in-house and updated the site's content and design, to make it more user-friendly and informative so as to better meet the needs of our diverse audiences. From the home page, viewers at a glance can now easily navigate to the topics they are seeking, and find information on what the Law Society does, how we regulate the legal profession and what services and programs we offer to the public and to lawyers.
- We also began using the web site as a means of communicating breaking news and timely highlights of interest and importance to the legal profession and the public. This ability to communicate breaking news immediately proved of great use during the Federation of Law Societies of Canada's challenge to the *Proceeds of Crime (Money Laundering) Act*. More than 35,000 visitors logged on to our web site in November looking for up-to-the-minute information, as compared to only 21,000 in August. As we improved the web site, the number of hits tripled to 2.3 million by the end of the year.
- The Great Library expanded the availability of online research tools for members, including a catalogue of its entire collection, annotated links to free legal information on the web, research tips, and a current awareness service, which provides lawyers with convenient desktop access to current legal developments in specific practice areas.

- In 2001, we also began exploring the potential for online learning in the Bar Admission Course to provide further flexibility for students. This included the streaming of some lectures on the Internet in both live and archived formats. A seminar was also made available online and viewers were able to e-mail their questions directly to the instructor. These e-learning initiatives were well accessed by students. In 2002, we will further investigate the potential of e-learning as a useful and practical education alternative.

PUBLIC COMMUNICATIONS

To help the public better understand the role of the Law Society and our programs and services, we produced and distributed a series of new informational brochures. The brochures explain in understandable terms what the Law Society can do to help them find a lawyer, how the Law Society can help the public with concerns or questions, what to expect when making a complaint, and how to access the Lawyers Fund for Client Compensation. The brochures have been distributed across the province to high-traffic public areas and offices that make referrals to the Law Society. Feedback on these brochures has been very favourable.

EQUITY AND DIVERSITY

In 2001, we began shifting our efforts from initiatives to simply build awareness of equity and diversity issues, to creating and providing more of the resources and tools to help weave such principles into the fabric of the profession:

- We developed new model policies and best practices to assist lawyers in their efforts to promote equity and diversity in all of their practices, including employment and services. The Law Society also began offering custom-made training programs for firms and practitioners to help them in meeting their obligations under the *Ontario Human Rights Code*.
- We expanded our outreach efforts and generated increased participation in our Equity and Diversity Mentorship Program, which with the help of volunteer lawyers as mentors and speakers, encourages those from communities under-represented in the profession to consider law as a career. In 2001, the Law Society hosted six events with volunteer lawyers speaking to more than 600 students.
- As well, we aligned our Connecting Communities with Counsel Program under the umbrella of Pro Bono Law Ontario to increase its reach to those in need of access to pro bono services from diverse communities across the province.

LOOKING FORWARD...

While there is still much work to do, I am pleased by the progress we have made in 2001. I am also excited and challenged by the opportunities that lie ahead for the Law Society as we continue to improve the effectiveness of those operations that assist us in meeting the expectations of our

stakeholders. We continue to strive to find the right balance in protecting the public interest while supporting the profession.

In addition to enhancing our complaints management process, we will implement new competence programs, become more client-service focused and continue to explore technology initiatives, improvements for the continuum of legal education, and alternate methods of providing information to members of the public and profession. In doing so, the Law Society will be well positioned to serve our members' need for support, information and advice as we assist their professional development and competence, and the public's need to understand how we regulate the profession and prepare lawyers to deliver high-quality legal advice and services.

I want to thank the loyal and hardworking staff at the Law Society who have responded well to the many changes and initiatives introduced in the past year. I am enthusiastic as to the prospects for the Law Society in 2002 and look forward to working with our Benchers, members and staff to fulfill our important mandate.



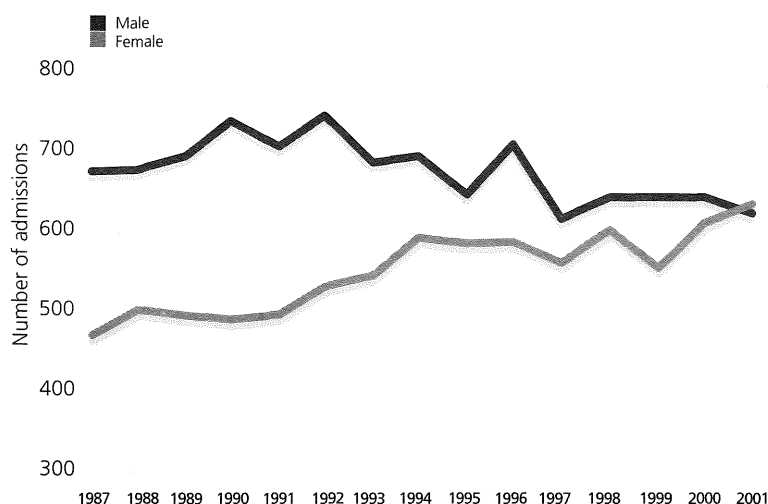
Malcolm Heins
Chief Executive Officer

STATISTICS AT A GLANCE

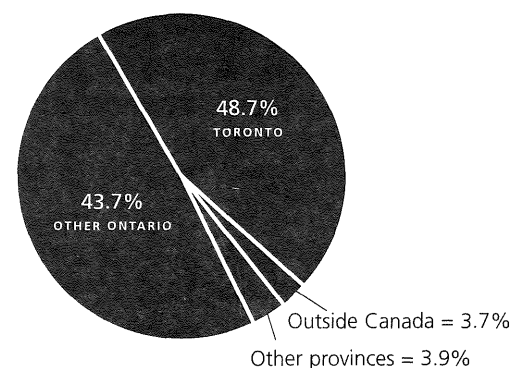
Membership Statistics

The information presented here is based on Law Society data at December 31, 2001

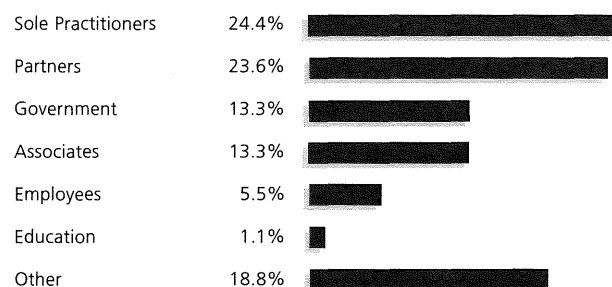
Admissions (by sex, 1987-2001)



Geographical distribution of members



Membership by area of employment in Ontario
% of total employed members

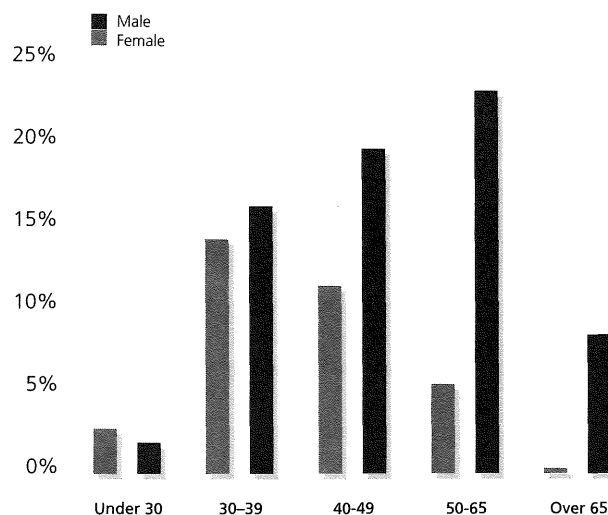


- Total employed members = 26,078
- Other category includes corporate and non-profit sectors
- Total membership = 31,479

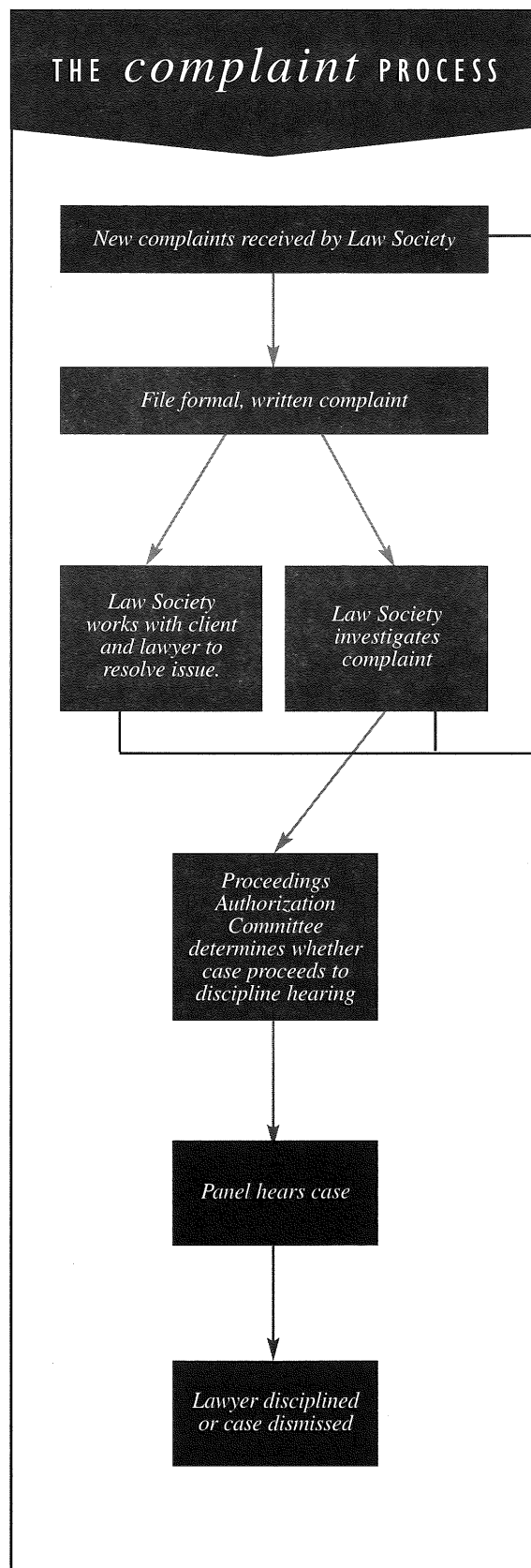
Size of Law Firm (current)

1 lawyer	5,363	72.5%
2-10 lawyers	1,870	25.3%
11-25 lawyers	111	1.5%
26-50 lawyers	25	0.3%
51+ lawyers	28	0.4%

Membership by age range and sex
% of members in good standing

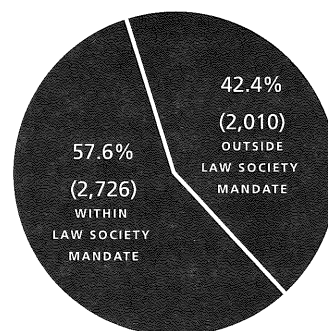


Complaints Statistics



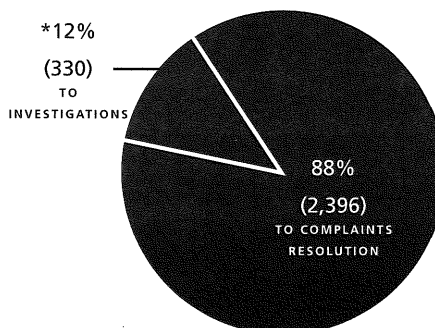
New complaints received by the Law Society in 2001

TOTAL RECEIVED – 4,736



Complaints directed to departments

TOTAL WITHIN LAW SOCIETY JURISDICTION – 2,726



* includes complaints about unauthorized practice

Complaints closed in 2001



* individual matters heard by discipline panel may include more than one complaint

Complaints Statistics

Unauthorized Practice

New files opened – 101

Files closed in 2001 by category:

No evidence/permitted practice	37
Remedial resolution	17
Insufficient evidence	13
Authorized for prosecution	6
Other	12

Complaints received by area of law 2001

only relates to complaints in Complaints Resolution

Civil Litigation	16%	
Matrimonial/Family Law	14%	
Real Estate	11%	
Estates/Wills/Trust	5%	
Criminal	4%	
Corporate/Commercial	2%	
Administrative/Immigration	2%	
Other	27%	
Unassigned	19%	

Complaints Resolution

Nature of Complaint

Relations with clients and other lawyers	18.5%	
Financial issues	17.5%	
Miscellaneous/other	16%	
Negligence	14.5%	
Quality of service	10%	
Complaints about another party's lawyer	8.5%	
Outside Law Society jurisdiction	5%	
Conflict of interest	2%	
Conduct unbecoming	2%	
Inappropriate behavior	1.8%	

2001 Investigations

Nature of Complaint

Records and financial issues	35.5%	
Miscellaneous	16.5%	
Relations with clients and other lawyers	16%	
Misleading clients and others	7.1%	
Conflict of interest	7%	
Failure to cooperate	5.7%	
Conduct unbecoming	5.3%	
Sexual misconduct and discrimination	3.5%	
Practising under suspension	3.4%	

2001 Discipline

Number of matters heard and disposed of by hearing panel	86*
Reprimands	10
Admonishments	11
Suspensions	31
Disbarments	8
Permission to resign	4
Dismissed	2
Withdrawn	9
Withdrawn/dismissed and converted to an invitation to attend	4
Finding of professional misconduct with conditions, no penalty imposed	1
Admission applications	2
Readmission applications	1
Applications to vary order of hearing panel	1
Capacity proceedings	2

* individual matters heard by discipline panel may include more than one complaint

16-27

GENERAL FUND

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

28-34

**LAWYERS FUND FOR
CLIENT COMPENSATION**

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

35-47

**ERRORS AND OMISSIONS
INSURANCE FUND**

*Management Discussion and Analysis,
Auditors' Report, Actuary's Report,
Financial Statements and Notes*

48-57

LIBRARYCO INC.

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

GENERAL FUND

The Society's General Fund comprises its unrestricted fund, funds restricted by Convocation for specific purposes and endowment funds held in trust. Transactions of a capital nature are recorded in the Invested in Capital Assets Fund. The Society's annual membership fee is based on the financial requirements of the restricted and unrestricted funds.

STATEMENTS OF REVENUES AND EXPENSES

In 2001, the General Fund generated an operating surplus of \$5.4 million compared to a deficit of \$1.9 million in 2000. As detailed below, the Society's total revenues increased by \$12.1 million to \$57.7 million in 2001, and total expenses increased by \$4.6 million to \$52.2 million.

Membership Fees

Membership fee revenues increased by \$6.5 million to \$36.4 million in 2001, as a result of membership growth and the increase of \$223 per member in the General Fund levy.

Bar Admission Course Revenues and Expenses

Bar Admission Course revenues and expenses increased by 51% and 31% respectively from 2000. These are "one-off" increases resulting from the transition to the new Bar Admission Course model and the "double cohort" brought about by overlapping enrolments.

Other Revenues

The increase of \$1.9 million in Other Revenues from 2000 is primarily attributable to increased royalties from the Ontario Reports and the increase in the grants from the Law Foundation of Ontario for county and district law libraries.

Professional Regulation Expenses

Regulatory expenses were up \$1.7 million over 2000 to \$7.7 million with additional funds allocated to most regulatory areas, particularly discipline which had been identified as under resourced.

Restricted Fund Expenses

Amounts expended for the operation of county libraries increased to \$8.4 million in 2001 (2000: \$6.1 million) including \$1.8 million which represented the opening balance in the County Libraries Fund transferred to LibraryCo Inc. during the year. Expenditures on capital and technology declined by \$2 million from 2000.

Amortization-Invested in Capital Assets

The cost for the amortization of the Society's capital assets was \$2.1 million in 2001 (2000: \$2 million). Amortization is a non-cash expense of the Society and does not contribute to the calculation of the annual membership fee. The Society raises, as part of its general levy, funds for the acquisition of capital assets and retains them in the Capital and Technology Fund. The unamortized balance of the Society's capital assets is equal to the Invested in Capital Assets Fund balance.

BALANCE SHEETS

Cash and Short-Term Investments

The Society's investments increased by \$5.3 million to \$17.7 million as a result of the 2001 operating surplus generating increased cash for investment.

Fund Balances

The accumulated fund balances increased by \$5.5 million to \$28.5 million in 2001 in line with the operating surplus. Included in fund balances for the first time is the Repayable Allowances Fund established for Bar Admission Course students in need of financial assistance.

GENERAL FUND

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, 2001 and 2000, and the statements of revenues and expenses, fund balances and cash flows for the years 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Audette LLP

Toronto, Canada
February 8, 2002



GENERAL FUND

Balance Sheets

Stated in thousands of dollars

As at December 31

	2001	2000
ASSETS		
Cash and short-term investments	17,718	12,438
Accounts receivable	1,560	1,885
Prepaid expenses	212	276
Capital assets (<i>note 3</i>)	17,408	17,726
Total Assets	36,898	32,325
LIABILITIES AND FUND BALANCES		
Accounts payable and accrued liabilities	6,401	5,321
Deferred revenue	1,957	3,913
Total Liabilities	8,358	9,234
FUND BALANCES		
Unrestricted fund	3,959	157
Restricted funds	24,581	22,934
Total Fund Balances	28,540	23,091
Total Liabilities and Fund Balances	36,898	32,325

See accompanying notes

On behalf of Convocation

Treasurer

Chair of Finance and Audit Committee

GENERAL FUND

Statements of Revenues and Expenses and Fund Balances

Stated in thousands of dollars

Year ended December 31

	2001	2000
REVENUES		
Membership fees	36,429	29,933
Bar admission course	10,082	6,671
Other (note 4)	5,994	4,058
Continuing legal education	2,016	2,020
Errors and Omissions Fund investment income	2,000	1,800
Investment income	1,148	1,123
Total revenues	57,669	45,605
UNRESTRICTED FUND EXPENSES		
Bar admission course	7,918	6,061
Professional regulation	7,700	6,006
Administration	7,053	6,876
Other (note 5)	4,503	4,564
Client service centre	3,070	2,892
Library services	2,321	2,206
Facilities	2,191	1,765
Continuing legal education	1,899	1,631
Policy and legal services	1,748	2,103
Professional development and competence	1,350	1,301
Communications	957	1,153
Total unrestricted fund expenses	40,710	36,558
RESTRICTED FUND EXPENSES		
County libraries	8,394	6,109
Capital assets amortization	2,147	2,034
Capital and technology	696	2,870
Repayable allowances	171	—
Technology enhanced learning	96	6
Endowment funds	6	9
Working capital reserve	—	4
Total restricted fund expenses	11,510	11,032
Total expenses	52,220	47,590
Operating surplus (deficit)	5,449	(1,985)
Fund balances, beginning of year	23,091	25,076
Fund balances, end of year	28,540	23,091

See accompanying notes



GENERAL FUND

Statements of Fund Balances

Stated in thousands of dollars
Year Ended December 31

	2001										2000
	RESTRICTED FUNDS										
	Unrestricted Fund	County Libraries	Invested in Capital Assets	Capital and Technology	Repayable Allowances	Technology Enhanced Learning	Endowment Funds	Working Capital Reserve	Total Restricted Funds	Total	Total
Revenues	48,702	6,930	—	1,989	26	—	22	—	8,967	57,669	45,605
Expenses	40,710	8,394	2,147	696	171	96	6	—	11,510	52,220	47,590
Operating surplus (deficit)	7,992	(1,464)	(2,147)	1,293	(145)	(96)	16	—	(2,543)	5,449	(1,985)
Interfund transfers											
Expenditures capitalized	—	—	1,829	(1,829)	—	—	—	—	—	—	—
Transfer to Repayable Allowances	(590)	—	—	—	590	—	—	—	590	—	—
Transfer to Working Capital Reserve	(3,000)	—	—	—	—	—	—	3,000	3,000	—	—
Transfer to Capital Technology	(600)	—	—	600	—	—	—	—	600	—	—
Total interfund transfers	(4,190)	—	1,829	(1,229)	590	—	—	3,000	4,190	—	—
Changes in fund balances	3,802	(1,464)	(318)	64	445	(96)	16	3,000	1,647	5,449	(1,985)
Fund balances, beginning of year	157	1,797	17,726	2,428	—	235	490	258	22,934	23,091	25,076
Fund balances, end of year	3,959	333	17,408	2,492	445	139	506	3,258	24,581	28,540	23,091

See accompanying notes

GENERAL FUND

Statements of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2001	2000
OPERATING ACTIVITIES		
Surplus (deficit)	5,449	(1,985)
Items not affecting cash:		
Amortization of capital assets	2,147	2,034
Other operating sources (uses) of cash:		
Accounts receivable	325	1,235
Prepaid expenses	64	2
Accounts payable and accrued liabilities	1,080	605
Deferred revenue	(1,956)	2,834
Total operating activities	7,109	4,725
INVESTING ACTIVITY		
Capital asset additions	(1,829)	(1,266)
Net increase in cash and short-term investments during the year	5,280	3,459
Cash and short-term investments, beginning of year	12,438	8,979
Cash and short-term investments, end of year	17,718	12,438

See accompanying notes

GENERAL FUND

Notes to Financial Statements

For the year ended December 31, 2001

(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 Society.

Separate financial statements have been prepared for the following related entities which have not been consolidated into the General Fund statements:

Lawyers Fund for Client Compensation

The Society maintains the Lawyers Fund for Client Compensation ("Compensation Fund") 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 Compensation Fund is financed by members' annual fees and investment income. Fees collected by the General Fund are reported by the Compensation Fund as revenues. The Compensation Fund reimburses the General Fund for certain administrative expenses, spot audit expense and a portion of the costs of operating the investigations and discipline functions of the Society. This amounted in 2001 to \$3,585,000 (2000 – \$3,005,000).

Errors and 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 ("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 Omissions Insurance program was underwritten by various insurance carriers. LPIC took over underwriting the program commencing July 1, 1990. LPIC, a

GENERAL FUND

wholly owned subsidiary of the Society, was incorporated in 1990 and is licensed to provide lawyer's professional liability and title insurance.

LibraryCo Inc.

LibraryCo Inc. is a wholly owned, not-for-profit subsidiary of the Society. LibraryCo Inc. was originally incorporated under the *Business Corporations Act* of Ontario on December 20, 2000 and was succeeded by another corporation of the same name on April 12, 2001. The Corporation issued 100 voting Common Shares to the Society for \$100 and 100 Special Shares to the County and District Law Presidents' Association for \$100. The holders of the Special Shares are entitled to elect one director.

The Society levies and collects funds for county and district law library purposes. These funds are internally restricted by Convocation for use by these law libraries to carry out their annual operations. LibraryCo Inc. was established to administer this funding on behalf of the Society and to develop policies, procedures, guidelines and standards for the delivery of county law library services across Ontario.

Law Society Foundation

The Law Society Foundation ("LSF") was incorporated by Letters Patent in October 1962. The LSF is a registered charity under the terms of the *Income Tax Act* and as such, is exempt from income taxes. The objects of the LSF 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, to maintain a collection of gifts of books and other written material for use by educational institutions in Canada and to receive donations, and maintain a fund for the relief of poverty by providing meals to persons in need.

The Law Foundation of Ontario

The Law Foundation of Ontario ("LFO") 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 2001, the LFO contributed to the General Fund of the Society \$1,300,000 (2000 – \$1,300,000) for the operation of the bar admission course and \$45,000 (2000 – \$45,000) for legal heritage programmes. The Society was also provided a grant of \$1,316,000 (2000 – \$985,000) for the operation of county law library programmes.

2. Significant Accounting Policies

Fund Accounting

The Society 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.

The *County Libraries Fund* accumulates funds raised by the Society for county library purposes and these funds are accounted for as a Restricted Fund of the Society. The Society remits amounts to LibraryCo Inc. on a predetermined basis. On an annual basis, amounts collected that exceed the current year requirements are held by the Society and accounted for in the fund balance. This fund balance is available to reduce the amount levied on the membership in the following year. At December 31, 2001 the fund balance was \$333,205 (2000 – \$1,797,175).

GENERAL FUND

All acquisitions, amortization and other expenditures relating to capital assets are reported in the *Invested in Capital Assets Fund*.

The *Capital and Technology Fund*, a combination of two funds previously known as the Osgoode Hall Capital Fund and the Technology Fund, reports funds that have been internally restricted by Convocation for the purposes of undertaking capital and technological acquisitions. On an annual basis, capital projects at Osgoode Hall and other Society facilities are identified along with the identification of technological acquisitions and improvements. Funding is raised through a levy on the membership.

The *Repayable Allowances Fund* was established by Convocation with funding from increased revenue generated by a “double cohort” of students attending the Bar Admission Course in 2001. This initial amount of funding was \$590,000. The programme replaced the previously operated student loan programme and is based on a student’s ability to repay the grant within a specified period of time following the student’s non-participation in the Bar Admission Course. A staff committee reviews and decides on applications according to guidelines set out by Convocation.

The *Technology Enhanced Learning Fund* reports resources set aside for development and implementation of assistive technology for the Bar Admission Course. This fund was established in 1999 with a capital grant of \$775,000 received from the LFO. This fund is internally restricted by Convocation.

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, student members and their respective families who find themselves in difficult financial circumstances. Contributions for endowment are recognized as revenue in the Endowment Fund. For 2001, no funds were contributed for endowment purposes. Increases to the fund balances are reflective of interest income only.

The *Working Capital Reserve Fund* was created in January 2000 when Convocation directed that this fund replace the Insurance Levy Waiver Fund, and set it aside to ensure the continuous funding of the Law Society’s operations. This fund is internally restricted by Convocation.

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.

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 expenses 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

GENERAL FUND

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 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 values of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and deferred revenue 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 in accordance with Canadian 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. Actual results could differ from those estimates.

3. Capital Assets

As at December 31, 2001

<i>(\$000's)</i>	Cost	Accumulated Amortization	Net
Land and buildings	27,946	15,043	12,903
Building improvements	4,091	1,297	2,794
Furniture, equipment and computer hardware and software	8,425	6,714	1,711
	40,462	23,054	17,408

As at December 31, 2000

<i>(\$000's)</i>	Cost	Accumulated Amortization	Net
Land and buildings	27,946	14,291	13,655
Building improvements	2,604	1,227	1,377
Furniture, equipment and computer hardware and software	8,083	5,389	2,694
	38,633	20,907	17,726

GENERAL FUND

4. Other Revenue

Included in other revenue is income from the Ontario Reports, catering, the Lawyer Referral Service, Law Foundation of Ontario grants for county library purposes, specialist certification and other miscellaneous revenues.

5. Other Unrestricted Fund Expenses

Included in other unrestricted fund expenses are payments to the Federation of Law Societies, County and District Law Presidents' Association, insurance, professional fees, governance related disbursements, termination payments, and other corporate expenses.

6. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. The plan covers employees of the Society and the Compensation Fund. The Society matches its employees' contributions to the plan. The Society's pension expense (excluding the Compensation Fund) for the year amounted to \$694,129 (2000 – \$555,395).

7. Commitments

The Society is committed to monthly lease payments for property and computer facilities under leases having various terms up to the end of 2010. In addition, the Society is committed to minimum monthly payments to 2003 for its contracted printing and mailroom services. Aggregate minimum monthly payments over the next five years and beyond in total are estimated as follows:

Year	\$000's
2002	1,167
2003	374
2004	337
2005	352
2006	377
2007 & beyond	1,416
Total	4,023

GENERAL FUND

8. Contingent Liabilities

Favourable judgement with respect to three claims made against the Society as a result of an alleged copyright infringement was made in 1999. The plaintiffs have appealed and the Society has cross appealed. While the appeal has been heard, the decision is still reserved. At this point in time, the only financial exposure to the Society is for legal costs of the plaintiff in the event that the Society is not successful on appeal. No provision has been included in the financial statements.

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion that based on the information presently available, it is unlikely that any liability, to the extent not covered by insurance, would be material to the Society's financial position.

9. Comparative Financial Statements

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



LAWYERS FUND FOR CLIENT COMPENSATION

The Lawyers Fund for Client Compensation experienced an excellent year in 2001 with a surplus of \$4.3 million (2000: deficit of \$3.1 million). The total number of claims outstanding at the end of 2001 declined to 187 from 209 in 2000. To strengthen the Compensation Fund, the Society increased 2001 membership fees and entered into an insurance program to reduce the risk posed by large defalcations. Insurance premiums totalled \$1.2 million.

STATEMENTS OF REVENUES AND EXPENSES

Membership Fees

Membership fees increased by \$4.7 million to \$10 million as a result of the increase in the annual levy per member from \$210 in 2000 to \$379 in 2001.

Provision for Unpaid Grants

With improving claims experience, the provision for unpaid grants decreased by \$4.7 million to \$1.4 million. Both the number of claims and the average grant per claim decreased from 2000. With the exception of a single large defalcation in 2000 of approximately \$4.6 million, the claims experience over the last three years has continued to improve.

BALANCE SHEETS

Cash and Short-Term Investments

Portfolio Investments

Cash and short-term investments at \$9.1 million (2000: \$5.2 million) and portfolio investments at \$13.7 million (2000: \$13.5 million) have increased from the previous year as a result of the improved claims experience. The market value of investments is marginally higher than book value. For the first time, equities now comprise a small part of portfolio investments.

Reserve for Unpaid Grants

Based upon the actuary's valuation of the grant reserve, the reserve for unpaid grants has decreased by \$500,000 to \$9.2 million. The estimation of the reserve for unpaid grants introduces measurement uncertainty and is subject to variation. The estimations are intended to be prudently conservative.

LAWYERS FUND FOR CLIENT COMPENSATION

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, 2001 and 2000, and the statements of revenues and expenses and fund balance and cash flows for the years 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 Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andrus LLP

Toronto, Canada
February 8, 2002



LAWYERS FUND FOR CLIENT COMPENSATION

Balance Sheets

Stated in thousands of dollars

As at December 31

	2001	2000
ASSETS		
Cash and short-term investments	9,104	5,245
Interest and other receivables	145	453
Portfolio investments, at amortized cost (market value – \$14,171; 2000 – \$13,646)	13,744	13,497
Total Assets	22,993	19,195
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	176	173
Reserve for unpaid grants	9,202	9,708
Total Liabilities	9,378	9,881
Fund Balance	13,615	9,314
Total Liabilities and Fund Balance	22,993	19,195

See accompanying notes

On behalf of Convocation

Treasurer

Chair of Finance and Audit Committee

LAWYERS FUND FOR CLIENT COMPENSATION

Statements of Revenues and Expenses and Fund Balance

Stated in thousands of dollars

Year ended December 31

	2001	2000
REVENUES		
Membership fees	10,052	5,317
Investment income	1,267	1,286
Total revenues	11,319	6,603
EXPENSES		
Grants paid	2,678	4,446
(Decrease)/increase to reserve for unpaid grants	(506)	2,081
Recoveries	(724)	(352)
Provision for unpaid grants	1,448	6,175
Spot audit	1,596	1,436
Administrative	1,120	631
Shared investigation and discipline	1,162	996
Insurance	1,190	—
Salaries and benefits	431	411
Counsel fees	68	60
Referees' and reporters' fees	3	16
Total expenses	7,018	9,725
Surplus/(deficit)	4,301	(3,122)
Fund balance, beginning of year	9,314	12,436
Fund balance, end of year	13,615	9,314

See accompanying notes



LAWYERS FUND FOR CLIENT COMPENSATION

Statements of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2001	2000
OPERATING ACTIVITIES		
Surplus/(deficit)	4,301	(3,122)
Items not affecting cash:		
Experience loss of reserve for unpaid grants	1,448	6,175
Other operating sources (uses) of cash:		
Interest and other receivables	308	(145)
Recoveries	724	352
Accounts payable and accrued liabilities	3	28
Grants paid	(2,678)	(4,446)
Total operating activities	4,106	(1,158)
FINANCING ACTIVITY		
Portfolio investments	(247)	55
Net increase (decrease) in cash and short-term investments during the year	3,859	(1,103)
Cash and short-term investments, beginning of year	5,245	6,348
Cash and short-term investments, end of year	9,104	5,245

See accompanying notes

LAWYERS FUND FOR CLIENT COMPENSATION

Notes to Financial Statements

For the year ended December 31, 2001

(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 fees 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 Lawyers Fund for Client Compensation reimburses the General Fund for certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigations and discipline functions of the Society. The charges for the year amount to \$3,585,000 (2000 – \$3,005,000).

2. Significant Accounting Policies

Fund Accounting

The Fund 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 a diversified portfolio of government bonds, corporate bonds and Canadian and U.S. equities, according to the Society's investment policy. Only if a loss in the value of an investment is other than a temporary decline is the investment written down to recognize the loss.

LAWYERS FUND FOR CLIENT COMPENSATION

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. During 2001, the Fund acquired insurance for cumulative claims in excess of \$6,000,000 to a maximum of \$20,000,000. On an annual basis, actuarial valuations are used to determine the appropriate levels of insurance that the Fund purchases.

Financial instruments

The estimated fair values of cash and short-term investments, interest and other receivables and 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.

ERRORS AND OMISSIONS INSURANCE FUND

COMBINED STATEMENT OF REVENUE AND EXPENSES AND SURPLUS

In 2001, the Errors and Omissions Insurance Fund generated an excess of revenue over expenses of \$15.3 million, an increase of \$6.4 million from 2000. The increase in revenues of \$3.6 million was supplemented by a decrease in expenses of \$2.8 million.

Members' Levies

Members' levies increased by \$7.7 million to \$80.5 million in 2001, as a result of a combination of several factors. The base annual member levy dropped by \$350 per lawyer to \$2,800 in 2001 (2000: \$3,150) for a total drop of \$5.3 million and real estate related transaction levies declined by \$2.9 million in 2001, a consequence of increased title insurance penetration. These reductions were overshadowed by the change in the level of retrospective premium rate refund, which in 2001 dropped to \$2.9 million from \$14.7 million in 2000. Also contributing to the increase is the growth in TitlePLUS premiums and increased premiums from insuring the Fund for Client Compensation and other optional coverages.

Investment Income

The Fund generated \$16.7 million of investment income, a decrease of \$2.4 million from 2000, reflecting poorer market conditions mitigated somewhat by the continued growth in the investment portfolio. Investment income is net of a \$4.2 million write-down on equity holdings (2000 – nil). At year-end, the market value of the portfolio exceeds book value by \$5.7 million (2000: \$4.2 million).

Net Claims and Adjustment Expenses

In 2001, the increase in net claims and adjustment expenses of \$8.1 million is primarily attributable to a change in the way risk was shared with reinsurers and is offset by the reduction in reinsurance premiums noted below. The claims reported in 2001 were roughly consistent both in average severity and in number with those reported in 2000.

Reinsurance Premiums

The Fund continues to partner with Canadian licensed reinsurers in 2001 and shares risk proportionately from first dollar of loss in both its Ontario professional liability and title insurance lines of business. In 2001 the percentage ceded on professional liability coverage dropped to 35% (2000 – 50%), generating the reduction in reinsurance premiums ceded of \$8.2 million in 2001.

General Expenses

Expenses increased by \$2.8 million from 2000 levels. Expenses in the Lawyers' Professional Indemnity Company (LPIC) operation increased by \$0.5 million, stemming from higher salary and technology costs, while the balance relates to changes in the movement of Funds Held in Trust.



ERRORS AND OMISSIONS INSURANCE FUND

COMBINED BALANCE SHEET

Investments

Investment assets, inclusive of cash and cash equivalents, increased by \$26.3 million to \$296.1 million at December 31, 2001 a result of profitable operation during the year and an increase in the net provision for unpaid claims and adjustment expenses. Investment assets are invested in accordance with investment policy in a diversified, high quality portfolio.

Reinsurers' Share of Provision

Provision for Unpaid Claims and Adjustment Expenses

The decline in the reinsurer's share of the provision for unpaid claims and adjustment expenses from \$159.8 million in 2000 to \$144 million in 2001 is attributable to the reduction of quota share reinsurance in the Ontario professional liability program. The provision for unpaid claims, which represents the amount required to satisfy all obligations to claimants without offset for reinsurance, has decreased from \$341.2 million in 2000 to \$329.1 in 2001.

Surplus

The surplus has increased by \$15.3 million, the excess of revenue over expenses for the year.

ERRORS AND OMISSIONS INSURANCE 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, 2001 and the combined statements of revenue and expenses and surplus, and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario

February 1, 2002

ERRORS AND OMISSIONS INSURANCE FUND

Actuary's Report

For Combined Financial Statements at December 31, 2001

ROLE OF THE VALUATION ACTUARY

The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in its capacity as manager 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 it 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 December 31, 2001, the date of these combined financial statements.

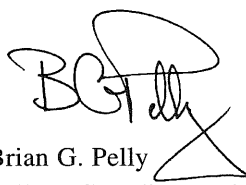
In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of 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 December 31, 2001, and their changes in its combined statement of revenue and expenses and surplus for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
February 13, 2002



Brian G. Pelly
Fellow, Canadian Institute of Actuaries

ERRORS AND OMISSIONS INSURANCE FUND

Combined Balance Sheet

Stated in thousands of dollars

As at December 31

2001

2000

ASSETS

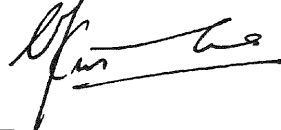
Investments (<i>note 4</i>)	288,099	265,382
Cash and cash equivalents	8,029	4,379
Investment income due and accrued	2,965	2,999
Accounts receivable	14,028	17,328
Reinsurers' share of provision for unpaid claims and adjustment expenses (<i>note 6</i>)	144,028	159,803
Future income taxes	3,355	4,733
Other assets	877	1,155
Total assets	461,381	455,770

LIABILITIES AND SURPLUS

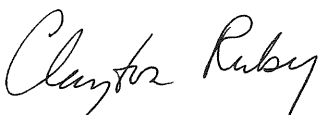
Provision for unpaid claims and adjustment expenses (<i>notes 3 and 6</i>)	329,118	341,161
Funds held in trust for future insurance purposes (<i>note 8</i>)	26,603	25,870
Accounts payable and accrued liabilities	12,147	10,558
Surplus (<i>note 5</i>)	93,513	78,181
Total liabilities and surplus	461,381	455,770

See accompanying notes

On behalf of Convocation:



Treasurer



Chair of Finance and Audit Committee



ERRORS AND OMISSIONS INSURANCE FUND

Combined Statement of Revenue and Expenses and Surplus

Stated in thousands of dollars

Year Ended December 31

	2001	2000
REVENUE		
Members' levies (<i>notes 7 and 8</i>)	80,464	72,814
Reinsurance commissions	7,389	8,717
Investment income	16,706	19,082
Other revenue	1,341	1,664
Total revenue	105,900	102,277
EXPENSES		
Net claims and adjustment expenses (<i>notes 3 and 6</i>)	39,897	31,792
Reinsurance premiums	29,559	37,714
General expenses	12,204	9,454
Transfer to Law Society General Fund (<i>note 9</i>)	2,000	1,800
Funds held in trust for future insurance purposes (<i>note 8</i>)	(2,191)	6,037
Premium taxes	2,469	2,068
Provision for income taxes (<i>note 11</i>)	6,630	4,477
Total expenses	90,568	93,342
Excess of revenue over expenses	15,332	8,935
Surplus, beginning of year	78,181	69,246
Surplus, end of year (<i>note 5</i>)	93,513	78,181

See accompanying notes

ERRORS AND OMISSIONS INSURANCE FUND

Combined Statement of Cash Flows

Stated in thousands of dollars

Year Ended December 31

	2001	2000
OPERATING ACTIVITIES		
Excess of revenue over expenses	15,332	8,935
Other operating sources (uses) of cash:		
Provision for unpaid claims and adjustment expenses	(12,043)	5,102
Amounts receivable and other assets	3,578	(8,030)
Reinsurers' share of provision for unpaid claims and adjustment expenses	15,775	(4,034)
Funds held in trust for future insurance purposes	733	20,714
Future income taxes	1,378	1,874
Accounts payable and accrued liabilities	1,589	(6,683)
Investment income due and accrued	25	(476)
Total funds provided by operating activities	26,367	17,402
FINANCING ACTIVITIES		
Purchases of investments, net	(22,717)	(26,708)
Net change in cash and cash equivalents	3,650	(9,306)
Cash and cash equivalents, beginning of year	4,379	13,685
Cash and cash equivalents, end of year	8,029	4,379

See accompanying notes

ERRORS AND OMISSIONS INSURANCE FUND

Notes to Combined Financial Statements

For the year ended December 31, 2001

(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 practising 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, cash flows and the financial positions of:

- the Errors and Omissions Insurance Fund of the Society ("the Fund"), 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 as an insurance company and is licensed to provide lawyers' professional liability and title insurance.

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

ERRORS AND OMISSIONS INSURANCE FUND

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 a portion of its risk retention to third party Canadian licensed reinsurers. The policy limits for the period January 1, 2001 through December 31, 2001 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 Canadian 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 transactions. The transaction levy, first introduced in 1995, is 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, or in the event an asset's value becomes impaired.

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 discounted cost of all insurance claims to December 31, 2001. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

ERRORS AND OMISSIONS INSURANCE FUND

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 as, 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 which range 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

LPIC uses the asset liability method of accounting for income tax purposes. Under the asset and liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. The Fund is not subject to income or capital taxes because it is a fund of a not-for-profit corporation.

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.

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 would prove immaterial to these financial statements.

ERRORS AND OMISSIONS INSURANCE FUND

4. Investment Information

LPIC and the Fund hold diversified portfolios consisting of equities and securities with investment grades of "A" or better.

Estimated fair values

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

(000's)	2001			2000		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	255,049	260,123	4.3	240,378	243,420	5.4
Common Shares	25,421	26,033		23,892	25,089	
Preferred Shares	7,629	7,617		1,112	1,060	
	<u>288,099</u>	<u>293,773</u>		<u>265,382</u>	<u>269,569</u>	

The estimated fair values of debt securities, common and preferred shares are based on quoted market values. The book value of common shares noted above is net of a write-down of \$ 4,169,000 (2000 – \$ nil).

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2001 is as follows:

(000's)	Within 1 year	1 to 5 years	Over 5 years	Book value
Debt securities	5,986	199,140	49,923	255,049
Percent of total	2%	78%	20%	

The average duration of the portfolio at December 31, 2001 is 3.1 years, limiting the Fund's exposure to changing interest rates.

Equities have no specific maturities.

5. Surplus

The Surplus of the Fund includes LPIC's capital and surplus. At December 31, 2001 the Statutory Capital, Surplus and Reserves of LPIC, as reported under insurance regulatory reporting, was \$72.3 million (2000 – \$63.6 million).

ERRORS AND OMISSIONS INSURANCE FUND

6. Claims and Adjustment Expenses

Reinsurance Ceded

To limit losses through the spreading of risks, LPIC and the Fund cede reinsurance to other insurers.

Net claims and adjustment expenses presented in the combined statement of revenue and expenses are net of reinsurance ceded in the amounts of \$12,316,000 (2000 – \$27,544,000).

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

Claims Discounting

The impact of claims discounting is reflected as follows:

	2001		
(000's)	Undiscounted	Amount of Discount	Discounted
BALANCE SHEET			
Provision for unpaid claims and adjustment expenses	342,929	(13,811)	329,118
Reinsurers' share of provision for unpaid claims and adjustment expenses	152,651	(8,623)	144,028
STATEMENT OF REVENUE AND EXPENSES			
Net claims and adjustment expenses	40,042	(145)	39,897
	2000		
(000's)	Undiscounted	Amount of Discount	Discounted
BALANCE SHEET			
Provision for unpaid claims and adjustment expenses	356,533	(15,372)	341,161
Reinsurers' share of provision for unpaid claims and adjustment expenses	170,132	(10,329)	159,803
STATEMENT OF REVENUE AND EXPENSES			
Net claims and adjustment expenses	29,904	1,888	31,792

7. Members' Levies

Members' levies for the 2001 year include annual base levies of \$2,800 per member (2000 – \$3,150) and additional levies that are charged based on a member's claims history, status, and certain reported transaction volumes. In 2001, additional levies totalled \$26,805,590 (2000 – \$30,049,300).

ERRORS AND OMISSIONS INSURANCE FUND

8. Funds Held in Trust for Future Insurance Purposes

Revenues from transaction based levies are subject to variation in levels of legal transactions that, in part, reflect the changing economic climate. Any revenues from transaction and claims history levies that are in excess of premium levels agreed for the year, are held in trust for future insurance purposes and applied as premiums under the insurance program in future years. Further, these funds also reflect retrospective premium rate adjustments under the insurance agreement between the Society and LPIC.

9. Transfer to Law Society General Fund

Investment income revenues of the stand-alone Fund which are surplus to its claims obligations are made available to the Society for general purposes.

10. Commitments

LPIC is committed to monthly lease payments in effect until January 31, 2008. Lease obligations are as follows:

	(000's)
2002	\$1,300
2003	\$1,300
2004	\$1,362
2005	\$1,362
Thereafter	\$2,838

11. Taxation

The 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.

LIBRARYCO INC.

LibraryCo Inc. began operations at the beginning of 2001. It is a not-for-profit corporation created for the purpose of carrying on the central management of the Ontario county law library system.

LibraryCo Inc.'s role is to develop policies, procedures, guidelines and standards for the delivery of county and district law library services across Ontario. In previous years, the transactions related to the county and district law libraries were reflected in the financial statements of the Law Society General Fund.

STATEMENT OF REVENUES AND EXPENSES

With total revenues approximating \$6.6 million, LibraryCo Inc. had a slight surplus of \$5,572 in 2001.

Revenues

LibraryCo Inc.'s total revenues in 2001 of \$6.6 million consist primarily of \$5.25 million from membership levies and grants from the Law Foundation of Ontario approximating \$1.3 million. The difference in total levies collected from members and the actual funds transferred to LibraryCo Inc. is \$330,000. These funds are held in the Law Society General Fund's restricted County Libraries Fund.

Expenses

Expenses required for the operation of the 48 county and district law libraries make up \$6.24 million of the total \$6.6 million. These expenses are primarily for collections – traditional and electronic, staffing, and facilities operating costs. The balance of \$334,000 for head office operations includes the corporation's start-up costs.

BALANCE SHEET

After the first year of operation, LibraryCo Inc. has a General Fund balance of \$5,572. It also has a Reserve Fund of \$1.8 million restricted for county and district law library purposes as approved by the Board of Directors. Cash and short-term investments of \$1.8 million provides the assets for the Reserve Fund.

LIBRARYCO INC.

Auditors' Report

TO THE SHAREHOLDERS OF LIBRARYCO INC.:

We have audited the balance sheet of LIBRARYCO INC. as at December 31, 2001, and the statement of revenues and expenses and general fund balance, reserve fund, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Arthur Audette LLP

Toronto, Canada
February 8, 2002

LIBRARYCO INC.

Balance Sheet

Stated in dollars

As at December 31, 2001

ASSETS

Cash and short-term investments	1,826,316
Prepaid expenses	8,200
Goods and services tax receivable	2,787
Due from related party (<i>note 3</i>)	13,427
Capital assets (<i>note 4</i>)	39,346
Total Assets	1,890,076

LIABILITIES, SHARE CAPITAL AND FUND BALANCES

Accounts payable and accrued liabilities	58,268
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SHARE CAPITAL AND FUND BALANCES

Share capital (<i>note 5</i>)	200
General fund	5,572
Reserve fund	1,826,036
Total Share Capital and Fund Balances	1,831,808
Total Liabilities, Share Capital and Fund Balances	1,890,076

See accompanying notes

On behalf of the Board of Directors



Chair – Board of Directors



Chair – Finance Committee

LIBRARYCO INC.

Statement of Revenues and Expenses and General Fund Balance

Stated in dollars

For the year ended December 31, 2001

REVENUES

Law Society of Upper Canada grant	5,250,000
Law Foundation of Ontario grant	1,316,000
Interest income	14,563
Total revenues	6,580,563

EXPENSES

Head office/administration	
Salaries and benefits	103,533
Office and occupancy	37,256
Professional fees – start-up	94,475
Other (note 6)	99,107
Total head office/administration expenses	334,371

County and District Law Libraries – centralized purchases

Electronic products and services	1,116,608
Hardware/software upgrades	143,267
Insurance and group benefits	43,818
Other (note 7)	113,774
	1,417,467

County and District Law Libraries – grants (note 8)

Total County and District Law Libraries expenses	6,240,620
Total expenses	6,574,991

Operating surplus and general fund balance, end of year	5,572
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See accompanying notes

LIBRARYCO INC.

Statement of Reserve Fund

Stated in dollars

For the year ended December 31, 2001

Reserve fund balance, beginning of year	-
Contribution from the Law Society of Upper Canada	1,797,175
Interest earned during the year	28,861
Reserve fund balance, end of year	1,826,036

See accompanying notes

LIBRARYCO INC.

Statement of Cash Flows

Stated in dollars

For the year ended December 31, 2001

OPERATING ACTIVITIES

Operating surplus	5,572
Items not affecting cash:	
Amortization of capital assets	5,481
Other operating sources (uses) of cash:	
Prepaid expenses	(8,200)
Goods and services tax receivable	(2,787)
Accounts payable and accrued liabilities	58,268
Total operating activities	58,334

FINANCING ACTIVITIES

Advances to related party	(13,427)
Contribution from the Law Society of Upper Canada	1,797,175
Interest earned on reserve fund	28,861
Proceeds from issuance of share capital	200
Total financing activities	1,812,809

INVESTING ACTIVITY

Purchase of capital assets	(44,827)
Cash and short-term investments, end of year	1,826,316

See accompanying notes

Notes to Financial Statements

For the year ended December 31, 2001

(Stated in whole dollars except where indicated)

1. General

LibraryCo Inc. (the "organization") is a wholly owned, not-for-profit subsidiary of the Law Society of Upper Canada, incorporated on April 12, 2001 under the Ontario *Business Corporations Act*. The Law Society of Upper Canada holds all common shares of the organization and the County and District Law Presidents' Association holds all special shares.

Activities reported are for the entire calendar year based on the fact that the April 12, 2001 incorporation was an amendment to the original incorporation dated December 20, 2000. The purpose of the organization is to administer funding from the members of the Law Society of Upper Canada and develop policies, priorities, guidelines and standards for the delivery of county law library services across Ontario including the distribution of funds to the various county and district law libraries.

As a not-for-profit organization, LibraryCo Inc. is not subject to federal and provincial income and capital taxes.

2. Significant Accounting Policies

Fund Accounting

The organization follows the restricted fund method of accounting. The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is restricted for specific purposes as periodically determined and approved by the Board of Directors.

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 organization's investment policy. Short-term investments are stated at the lower of cost and market value. Investment income, except income earned on General Fund resources, is retained in and reported by the Reserve Fund.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a declining balance basis as follows:

Furniture and fixtures	20%
Computer equipment	30%
Leasehold improvements	Straight-line over term of lease

In the year of acquisition, half the normal amortization is provided.

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.

LIBRARYCO INC.

Collections

The organization owns a collection of legal research and reference material. The cost of additions to the collections is expensed as incurred.

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 in accordance with Canadian 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. Actual results could differ from those estimates.

3. Due from Related Party

The amount is due from The Law Society of Upper Canada, a shareholder of the organization. The balance bears no stated rate of interest nor any specific repayment terms. It is expected the amount outstanding will be collected within the next fiscal year.

4. Capital Assets

As at December 31, 2001	Cost	Accumulated amortization	Net
Furniture and fixtures	\$15,938	\$1,594	\$14,344
Computer equipment	19,962	2,994	16,968
Leasehold improvements	8,927	893	8,034
	\$44,827	\$5,481	\$39,346

5. Share Capital

Authorized

Unlimited Common shares

Unlimited Special shares, with right to elect one director

Issued

100 Common shares	\$100
100 Special shares	100
	\$200

At incorporation, the organization issued 100 Common shares to The Law Society of Upper Canada and 100 Special shares to the County & District Law Presidents' Association for cash consideration of \$200.

LIBRARYCO INC.

6. Other Expenses – Head Office/Administration

Included in this expense are costs associated with staff travel, Board of Directors' meetings, accounting and audit fees, and other miscellaneous items.

7. Other Expenses – County and District Law Libraries – Centralized Purchases

Included in this expense are costs associated with publications, cataloguing, committee meetings, special needs, and other miscellaneous items.

8. County and District Law Library Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries. These grants are distributed in accordance with policies and procedures as established by the organization's Board of Directors.

In order to satisfy themselves as to the proper use of these funds, management has undertaken the following procedures:

Periodic visits, by the organization's staff, to the individual libraries to review financial information, assess collections, and to determine services being provided;

Submission of annual budgets by each individual library and review of these budgets by the organization's staff;

Submission of periodic financial information by each individual library and review of this information by the organization's staff;

Annual conference with the organization's staff and staff of all individual libraries.

The following individual library grants were distributed by the organization during 2001:

Algoma District Law Association	\$81,856
Brant Law Association	73,694
Bruce Law Association	61,446
County of Carleton Law Association	393,767
Cochrane Law Association	89,997
Dufferin Law Association	58,122
Durham County Law Association	111,302
Elgin Law Association	66,514
Essex Law Association	167,741
Frontenac Law Association	73,511
Grey Law Association	61,863
Haldimand Law Association	56,038
Halton Law Association	108,007
Hamilton Law Association	270,044
Hastings Law Association	75,638

LIBRARYCO INC.

Huron Law Association	60,256
Kenora Law Association	62,481
Kent Law Association	61,109
Lambton County Law Association	64,298
County of Lanark Law Association	59,987
Leeds & Grenville Law Association	65,152
Lennox & Addington Law Association	56,035
Lincoln Law Association	128,129
Manitoulin Law Association	6,090
Metropolitan Toronto Lawyers Association	412,098
Middlesex Law Association	230,851
Muskoka Law Association	57,271
Nipissing Law Association	68,880
Norfolk Law Association	59,853
Northumberland County Law Association	60,473
Oxford Law Association	61,297
Parry Sound Law Association	47,482
Peel Law Association	170,670
County of Perth Law Association	52,421
Peterborough Law Association	82,140
Prescott & Russell Law Association	54,503
Rainy River Law Association	57,322
Renfrew County Law Association	77,194
County of Simcoe Law Association	116,425
Stormont, Dundas & Glengarry Law Association	62,047
Sudbury District Law Association	121,904
Temiskaming Law Association	59,884
Thunder Bay Law Association	110,360
Victoria Haliburton Law Association	71,501
Waterloo Law Association	172,302
Welland Law Association	90,687
Wellington Law Association	90,592
York Region Law Association	121,919
	<u>\$4,823,153</u>

9. Lease Commitments

The organization has entered into a lease arrangement for its offices. The lease term is five years, expiring April 30, 2006 and requires monthly payments of \$916 plus operating costs for the first three years and \$1,100 plus operating costs for the last two years.



CHANGES IN THE MEMBERSHIP OF CONVOCATION

ELECTION

Vern Krishna, Q.C., FCGA, was elected Treasurer of The Law Society of Upper Canada on June 22, 2001.

APPOINTMENTS

Eleanore A. Cronk was appointed to the Ontario Court of Appeal on August 1, 2001.

NEW BENCHERS

Janet E. Minor was elected a bencher on July 26, 2001 to fill the vacancy created by the election of the Treasurer.

Avvy Go was elected a bencher on September 28, 2001 to fill the vacancy resulting from the appointment to the Ontario Court of Appeal of Eleanore A. Cronk on August 1, 2001.

Joanne St. Lewis was elected a bencher on December 7, 2001 to fill the vacancy resulting from the resignation of bencher Sanda Rodgers on October 18, 2001.

DEATHS

The Honourable G. Arthur Martin, a former Treasurer, passed away on February 27, 2001.

The Honourable Justice Paul S. A. Lamek, Q.C., a former Treasurer, passed away on August 29, 2001.

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ANNUAL GENERAL MEETING, 2002

WEDNESDAY, MAY 8, 2002

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