

THE LAW SOCIETY OF UPPER CANADA
2010 ANNUAL REPORT

Financial Statements

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Management Discussion and Analysis

The Law Society of Upper Canada's ("The Society") audited financial statements present the operational results and financial position of the General Fund, the Compensation Fund, the Errors & Omissions Insurance Fund ("E&O Fund") and other restricted funds.

Accounting Standards

In the current year the Society continued to follow the accounting standards for not-for-profit organizations contained in the CICA Handbook.

Separate financial statements have been prepared for the Society's subsidiaries, Lawyers' Professional Indemnity Company ("LAWPRO") and LibraryCo Inc. ("LibraryCo").

Summary of Financial Performance

The Society is reporting an operating surplus for 2010 of \$7.2 million, compared to a deficit of \$18.6 million in 2009.

The surplus in the current year arises largely from the results of the E&O Fund and the Compensation Fund, the Society's largest restricted funds:

- E&O Fund operations resulted in a surplus of \$6.9 million due in large part to \$8 million received in a legal settlement of all claims, damages and expenses related to a longstanding matter regarding the valuation of the E&O Fund's pre-1995 claims reserves, reported as Other Income;
- Compensation Fund operations resulted in a surplus of \$5.1 million due largely to favourable developments in the provision for unpaid grants and favourable returns on investments.

These two surpluses were somewhat reduced by capital asset amortization of \$2.9 million creating a deficit in the Invested in Capital Assets Fund. This is a non-cash expense that is not budgeted and therefore no annual fee revenue is raised to apply against the expense.

The Society's General Fund reports the bulk of the Society's operations related to its regulatory and competence mandate. The fund incurred a deficit of \$3.4 million (2009 – deficit of \$903,000). The 2010 budget incorporated the use of \$6.7 million from the General

Fund balance to fund operating expenses (2009 – \$4.9 million). In both years, actual results in the General Fund meant less of the fund balance was required to fund the Society's operations.

The impact of the operating results is reflected on the Balance Sheet primarily in increases in the Compensation Fund and E&O Fund balances and reductions in investments, General Fund balances, the provision for unpaid grants/claims and amounts due to LAWPRO.

Balance Sheet

Cash and Short-Term Investments

The main factor in the decrease in cash and short-term investments from \$36.6 million to \$31.8 million was the use of cash accumulated in the General Fund in previous years used to fund operations in 2010.

Investment in Subsidiaries

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of \$4,997,000 purchased in 1991 when LAWPRO was established, plus contributed capital of \$30,645,000 accumulated between 1995 and 1997.

Portfolio Investments

Portfolio investments are shown at fair value of \$75.3 million compared to \$81.8 million in 2009. The decline is largely attributable to the funding of 2009 insurance transactions related to the imposition of HST and the impact on the reserves of LAWPRO. Portfolio investments were liquidated in 2010 and used to reduce the balance due to LAWPRO. The increase in the values of the Compensation Fund and General Fund investments is due to the reinvestment of interest, dividends and realized gains, as well as changes in market value represented by unrealized gains.

Investments are held in the following funds:

	2010	2009
E&O Fund	\$33,473	\$42,504
Compensation Fund	28,999	27,129
General Fund	12,786	12,170
Total	\$75,258	\$81,803

Investments comprise Canadian equities (19%) and Canadian fixed income investments (81%). The portfolio is managed in compliance with the Society's investment policy. Fixed income investments include a diversified mix of government, provincial and corporate bonds with an investment rating of BBB or better. Equity investments include a diversified mix of securities listed on the Toronto Stock Exchange. The portfolio includes pooled and segregated funds.

Capital Assets

The decrease in capital assets to \$17 million from \$18 million reflects amortization for the period, offset by \$1.8 million in additions for projects such as the replacement of infrastructure, leasehold improvements and new software.

Capital assets are recorded at cost and amortized over their useful lives according to the Society's capital asset policy. Capital asset additions are typically financed from the Society's Capital Allocation Fund.

Deferred Revenue

Deferred revenue has decreased to \$11.1 million from \$12.4 million. The decrease relates primarily to less future year insurance premiums and membership fees received in 2010 as compared to 2009. The timing of these payments does not follow a pattern and is dependent on when members actually pay their fees and insurance premiums.

Due to LAWPRO

The amount due to LAWPRO comprises insurance premiums and levies and has decreased to \$4.1 million from \$19.1 million. The 2009 balance had increased as a result of the retrospective premium adjustments under the insurance contract with LAWPRO related primarily to the HST and have since been paid to LAWPRO in 2010.

Provision for Unpaid Grants / Claims

This balance includes the reserves for the Compensation Fund's unpaid grants and the E&O Fund's unpaid claims. It decreased from \$14.2 million in 2009 to \$10.3 million in 2010.

The Compensation Fund reserve for unpaid grants has decreased to \$9.6 million from \$13.1 million due in part to the elimination of a special provision for claims against one lawyer. The grant applications were denied and the reserve reduced accordingly. In addition, there was a general decrease in grants anticipated to be closed with payment. The paralegal Compensation Fund grant reserve comprises \$107,000 (2009 – \$134,000) of the total \$9.6 million reserve for unpaid grants.

The balance of the E&O Fund provision for unpaid claims is \$686,000 (2009 – \$1.1 million), all for claims pre-dating 1995. Effective 1995, 100% of the risk above the individual member deductible was insured through LAWPRO. The E&O Fund provision for claims is in run-off mode.

Unclaimed Trust Funds

Unclaimed trust funds continue to increase, now totalling \$2.2 million compared to \$1.9 million at the end of 2009.

These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed. To date, monies returned to clients from the fund have been nominal. By statute, the Society administers the unclaimed trust funds, in perpetuity, and is entitled to reimbursement for administrative expenses to a limit of the annual income earned on funds held. Net income, if any, is available for transfer to the Law Foundation of Ontario ("LFO"). To date, administrative expenses have exceeded income and no transfers to the LFO have been made.

Other Trust Funds

Included in the notes to the financial statements, but not the balance sheet, is a reference to other trust funds held by the Society. The Society administers client funds for lawyers under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet as they are held temporarily and with a restricted administrative mandate. Money paid to the Society is held in trust until it is repaid to the appropriate payee or transferred to the Unclaimed Trust Funds. At the end of 2010, total funds held in trust amounted to \$2.7 million (2009 – \$2 million). The volume and value of balances depend on trusteeships at the time.

Statement of Revenues and Expenses

Revenues

Annual Fees

General Fund annual fee revenues have increased to \$41.8 million from \$40.6 million in 2009 with a fee decrease of \$1 per lawyer and \$25 per paralegal offset by an increase in the number of lawyers and paralegals billed.

Insurance Premiums and Levies

The E&O Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO.

Insurance premiums and levies increased from \$74.4 million in 2009 to \$91.6 million in 2010. This increase is primarily a result of the increase in base premiums charged to lawyers in 2010. The base premium in 2010 is \$2,950 compared to \$2,450 in 2009. Transaction levies were raised in 2010 and increased in total over 2009.

Professional Development & Competence

Professional development and competence (PD&C) revenues have increased to \$12.2 million from \$10.9 million in 2009. This is due to increased continuing education course and materials revenue and an increase in the number of licensing process candidates, both lawyer and paralegal.

Included in PD&C revenues are grants from the LFO totalling \$1.1 million in 2010 as compared to \$928,000 in 2009.

Investment Income

Total investment income has decreased to \$5.2 million from \$7.1 million. All portfolio investments held by the Society are classified as held for trading. Accordingly, changes in market value are reported as income. The decrease was a result of the lower portfolio balance, lower interest rates and lower unrealized gains.

Other Revenues

Included in other revenues are a variety of items such as lawyer referral service fees, *Ontario Reports* royalties, catering revenues, litigation and enforcement cost recoveries, charges for fee payment plans and other miscellaneous revenues. Other income in the restricted funds has increased to \$8.5 million from \$388,000 due to an \$8 million legal settlement of all claims, damages and expenses related to a longstanding matter regarding the valuation of the E&O Fund's pre-1995 claims reserves.

Expenses

Professional Regulation

Regulatory expenses of \$20 million are higher than 2009 by \$2 million. The 2010 budget envisaged these expenses increasing for the year in response to the increasing number of complaints and the requirement for additional intake resources dedicated to paralegal regulation.

Professional Development & Competence

PD&C expenses are \$1.5 million higher than 2009 (\$17.9 million versus \$16.4 million). Increases were budgeted in Spot Audit and Practice Review, where additional staffing

is required to meet the goal of auditing all Ontario law firms once every five years and to support the increased number of revisits to sole and small firm lawyers. Further contributing to the increase is the cost for integration of the paralegal exempt categories.

Administrative Expenses

Moderate increases were incurred across all the operations of the Finance, Information Systems and Human Resources departments.

Other expenses

Other expenses include payments to the Federation of Law Societies, CANLII, catering, provisions for uncollectable fees, employment settlement costs, insurance, catering costs, bench-related reimbursements and remuneration, and other miscellaneous expenses, all of which total \$7.8 million for the year, an increase from \$6.2 million in 2009.

Errors & Omissions Insurance Fund

The E&O Fund accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers.

Total expenses of the Fund have increased slightly from \$94.4 million in 2009 to \$94.9 million in 2010. Premiums remitted to LAWPRO have decreased slightly, from \$95.1 million in 2009 to \$94.8 million in 2010. The retrospective premium adjustments experienced in 2009 did not recur but the increased base premiums maintained the total premium expense at the 2009 level.

Compensation Fund

Compensation Fund expenses for lawyers have decreased to \$6.1 million from \$8.9 million in 2009. Expenses related to grants decreased by nearly \$4 million as the 2009 provision for grants was relatively high due to unusually high claims against the Fund as a result of the activities of two lawyers. These provisions developed favourably. Costs for spot audit, investigations and discipline allocated from the General Fund have increased by approximately \$1 million over 2009, as those programs have expanded as budgeted.

Compensation Fund expenses for paralegals were \$325,000 in 2010 compared to \$268,000 in 2009.

County Libraries Fund

Funding of county libraries totalled \$6.9 million or \$203 per lawyer compared to the 2009 funding of \$7.4 million or \$220 per lawyer. However grants to county libraries increased by 2% due to the use of LibraryCo reserves.

Parental Leave Assistance Plan (“PLAP”)

PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who do not have access to any other parental leave financial benefits.

PLAP was established in 2009 as a three-year pilot project. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. Benefit payments totalled \$539,000 to 67 successful applicants (2009 - \$377,000 to 51 successful applicants).

Statement of Changes in Fund Balances

The 2010 budget had envisaged reducing the lawyer General Fund balance by \$5.8 million. Based on actual results, only \$3.4 million will be utilized. The lawyer General Fund balance is now \$4.9 million. In 2011, \$2.5 million of this accumulated balance has been earmarked for the reduction of annual fees.

The 2010 budget had envisaged using \$920,000 from the paralegal General Fund balance, although based on actual results, this will not be required. The paralegal General Fund balance is now \$1.5 million. In 2011, \$920,000 of this accumulated balance has been earmarked for the reduction of annual fees.

The Compensation Fund balance of \$25.8 million for lawyers and \$184,000 for paralegals has increased by approximately \$5 million. In 2011, \$1.5 million has been earmarked for the reduction of Compensation Fund levies for lawyers.

The E&O Fund balance has increased from \$57.4 million to \$64.3 million. In 2011, \$2 million in surplus investment income accumulated in this fund has been earmarked for the reduction of lawyers’ annual fees.

The Capital Allocation Fund has decreased by \$390,000 to \$3.4 million. In 2010, the per member capital levy was increased by \$20 to \$65. The levy will further increase in 2011 to \$75, its historic level, to fund capital projects.

The other restricted funds balance is made up of the J. Shirley Denison Fund, the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Plan.

Payments from the *J. Shirley Denison Fund* for the relief of poverty totalled \$31,000 to 12 successful applicants (2009 - \$57,000 to 13 successful applicants).

The *Repayable Allowance Fund* is replenished annually through the budget process by a \$100,000 annual contribution from the lawyer general fund. Loans totalled \$49,000 in 2010 (2009 - \$65,000).

The *Special Projects Fund* is used to carry forward funding to a future fiscal period for a program or activity yet to be completed, for which funding is not provided in the future year’s budget. For 2010, the fund is primarily comprised of funding for the Civil Needs Project, Data Management and Heritage First. Also included is the balance of a contribution from Canada Life for the ongoing maintenance of the Society’s lawns, gardens and trees.

The Working Capital Reserve remained at \$10.7 million during the year, in line with Convocation’s policy of up to two months’ operating expenses.

Conclusion

The Society remains financially sound. The Society’s accumulated fund balances total \$128 million of which \$17 million represents the book value of the Society’s capital assets, \$36 million the value, at cost, of its investments in LAWPRO and LibraryCo and approximately \$75 million available to support future operations.

Independent Auditor's Report

To the Members of The
Law Society of Upper Canada

We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2010, and the statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

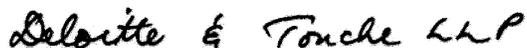
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2010 and the results of its operations, and changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
April 28, 2011

Membre de / Member of Deloitte Touche Tohmatsu

THE LAW SOCIETY OF UPPER CANADA**Balance Sheet**

Stated in thousands of dollars as at December 31

	2010	2009
Assets		
Current Assets		
Cash	17,696	18,223
Short-term investments	14,106	18,361
Cash and short-term investments	31,802	36,584
Accounts receivable (note 4)	2,024	1,945
Prepaid expenses	1,389	1,484
Total current assets	35,215	40,013
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	75,258	81,803
Capital assets (note 7)	16,989	17,998
Total Assets	163,104	175,456
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities	7,129	6,647
Deferred revenue	11,114	12,437
Due to LAWPRO (note 4)	4,108	19,124
Total current liabilities	22,351	38,208
Provision for unpaid grants/claims (note 8)	10,334	14,241
Unclaimed trust funds (note 9)	2,184	1,945
Total Liabilities	34,869	54,394
Fund Balances		
General fund – lawyers	4,891	8,294
– paralegals	1,460	1,506
Restricted funds		
Compensation – lawyers	25,726	20,741
– paralegals	184	42
Errors and omissions insurance	64,282	57,369
Capital allocation	3,411	3,798
Invested in capital assets	16,989	17,998
Other	617	639
Working capital reserve	10,675	10,675
Total Fund Balances	128,235	121,062
Total Liabilities and Fund Balances	163,104	175,456

*See accompanying notes***On behalf of Convocation**

Treasurer

Chair of Audit Committee

THE LAW SOCIETY OF UPPER CANADA

Statement of Revenues and Expenses

Stated in thousands of dollars for the year ended December 31

	2010			2009		
	General Fund	Restricted Funds	Total	General Fund	Restricted Funds	Total
Revenues						
Annual fees	41,777	18,959	60,736	40,618	17,149	57,767
Insurance premiums and levies	-	91,557	91,557	-	74,403	74,403
Professional development and competence	12,162	-	12,162	10,904	-	10,904
Investment income	801	4,402	5,203	1,116	6,031	7,147
Other (note 11)	5,216	8,468	13,684	5,484	388	5,872
Total revenues	59,956	123,386	183,342	58,122	97,971	156,093
Expenses						
Professional regulation	19,990	-	19,990	18,097	-	18,097
Professional development and competence	17,948	-	17,948	16,379	-	16,379
Administrative	9,263	-	9,263	8,736	-	8,736
Other (note 12)	7,819	-	7,819	6,200	-	6,200
Client service centre	5,368	-	5,368	5,333	-	5,333
Facilities	4,447	-	4,447	4,200	-	4,200
Policy and legal services	2,068	-	2,068	2,214	-	2,214
Communications	1,412	-	1,412	1,465	-	1,465
Equity	1,031	-	1,031	1,164	-	1,164
Tribunals	1,095	-	1,095	942	-	942
Errors and omissions insurance fund	-	94,939	94,939	-	94,374	94,374
Compensation fund	-	6,474	6,474	-	9,147	9,147
Capital allocation fund	-	1,053	1,053	-	1,367	1,367
Invested in capital assets – amortization	-	2,859	2,859	-	2,847	2,847
County libraries fund	-	6,908	6,908	-	7,435	7,435
Other restricted funds	-	618	618	-	500	500
Total expenses	70,441	112,851	183,292	64,730	115,670	180,400
Expenses allocated to Compensation Fund (note 2)	(7,123)	-	(7,123)	(5,705)	-	(5,705)
Net expenses	63,318	112,851	176,169	59,025	115,670	174,695
(Deficit) Surplus	(3,362)	10,535	7,173	(903)	(17,699)	(18,602)

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA

Statement of Changes in Fund Balance

Stated in thousands of dollars for the year ended December 31

	2010												2009	
	General Fund			Restricted Funds									Total	
	Lawyers	Paralegals	Total General Fund	Compensation		Errors and omissions insurance	Capital allocation	Invested in capital assets	County libraries	Other restricted	Working capital reserve	Total Restricted Funds		
Fund balances, beginning of year	8,294	1,506	9,800	20,741	42	57,369	3,798	17,998	-	639	10,675	111,262	121,062	139,664
Revenues	56,487	3,469	59,956	11,134	467	101,852	2,516	-	6,877	540	-	123,386	183,342	156,093
Expenses	59,803	3,515	63,318	6,149	325	94,939	1,053	2,859	6,908	618	-	112,851	176,169	174,695
(Deficit) surplus	(3,316)	(46)	(3,362)	4,985	142	6,913	1,463	(2,859)	(31)	(78)	-	10,535	7,173	(18,602)
Interfund transfers														
Asset capitalization	-	-	-	-	-	-	(1,850)	1,850	-	-	-	-	-	-
Transfer to county libraries fund	(31)	-	(31)	-	-	-	-	-	31	-	-	31	-	-
Transfer to repayable allowance fund	(100)	-	(100)	-	-	-	-	-	-	100	-	100	-	-
Transfer to special projects fund	44	-	44	-	-	-	-	-	-	(44)	-	(44)	-	-
Total interfund transfers	(87)	-	(87)	-	-	-	(1,850)	1,850	31	56	-	87	-	-
Fund balances, end of year	4,891	1,460	6,351	25,726	184	64,282	3,411	16,989	-	617	10,675	121,884	128,235	121,062

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA**Statement of Cash Flows**

Stated in thousands of dollars for the year ended December 31

	2010	2009
Net inflow (outflow) of cash related to the following activities		
Operating		
General fund surplus (deficit)	7,173	(18,602)
Items not affecting cash:		
Decrease in provision for grants and claims	(3,907)	(93)
Amortization of capital assets	2,859	2,847
	6,125	(15,848)
Net change in non-cash operating items:		
Accounts receivable	(79)	122
Prepaid expenses	95	(127)
Accounts payable and accrued liabilities	482	15
Due to LAWPRO	(15,016)	11,634
Deferred revenue	(1,323)	4,270
Fund contribution – unclaimed trusts	239	149
Cash (used in) from operating activities	(9,477)	215
Investing		
Portfolio investments, net	6,545	6,897
Short-term investments, net	4,255	2,706
Capital asset additions	(1,850)	(1,353)
Cash from investing activities	8,950	8,250
Net (outflow) inflow of cash, during the year	(527)	8,465
Cash, beginning of year	18,223	9,758
Cash, end of year	17,696	18,223
Supplementary Cash Flow Information		
Interest received	2,197	1,424

See accompanying notes

THE LAW SOCIETY OF UPPER CANADA

Notes to Financial Statements

Stated in whole dollars except where indicated

1. Background

The Law Society of Upper Canada (the “Society”) was founded in 1797 and incorporated in 1822 with the enactment of the *Law Society Act*. In 2007, the *Law Society Act* was amended by the *Access to Justice Act* to legislate the regulation of paralegals by the Society.

The *Law Society Act*, section 4.1, states that it is the function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the *Law Society Act*, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law.
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario.
- The Society has a duty to protect the public interest.
- The Society has a duty to act in a timely, open and efficient manner.
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

At December 31, 2010, the Society had a membership of approximately 42,000 lawyers and 3,500 paralegals. The primary sources of revenues are member annual fees and

insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is a not-for-profit organization, as described in Section 149(1)(l) of the *Income Tax Act*, and therefore is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

These financial statements present the financial position and operations of the Society and include the General Fund and a number of special purpose funds restricted by the *Law Society Act* or Convocation

Subsidiaries and Related Corporations

The Society has two wholly owned subsidiaries: Lawyers’ Professional Indemnity Company (“LAWPRO”), and LibraryCo Inc. (“LibraryCo”) and a related corporation, the Law Society Foundation. These entities have not been consolidated or included in the Society’s financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

General Fund

The *General Fund* is the Society’s operating fund, accounting for the Society’s program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2010, the lawyer fund balance was \$4,891,000 (2009 – \$8,294,000) and the paralegal fund balance was \$1,460,000 (2009 – \$1,506,000).

Restricted Funds

Compensation Fund

The Society maintains the *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 a member, in connection with the member’s professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the *Law Society Act*.

Members' annual fees and investment income finance the Compensation Fund. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The General Fund allocates certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society to the Compensation Fund. In 2010, these amounted to \$7,123,000 (2009 – \$5,705,000). At December 31, 2010, the lawyer pool share of the fund balance was \$25,726,000 (2009 – \$20,741,000) and the paralegal pool share of the fund balance was \$184,000 (2009 – \$42,000).

Errors and Omissions Insurance Fund

The *Errors and Omissions Insurance Fund* ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the *Law Society Act*, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer, in writing, for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

To the extent that levies exceed anticipated amounts, the excess remains in the E&O Fund and is applied as premiums in future years. In the event of a shortfall, the shortfall is met by additional funds from the E&O Fund. The net contribution to the 2010 insurance program from the E&O Fund balance was \$3,229,000 (2009 – \$7,115,000).

There is also a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2010 (2009 – \$13,568,000).

The E&O Fund also reports claims liabilities for 1995 and prior which are now substantially in run-off mode. The Society maintained financial responsibility for insurance policy deductibles through to December 31, 1994. Effective 1995, 100% of the risk above the individual member deductible was insured through LAWPRO.

At December 31, 2010, the E&O Fund balance was \$64,282,000 (2009 – \$57,369,000) of which \$35,642,000 (2009 – \$35,642,000) comprises the Society's investment in LAWPRO.

Capital Allocation Fund

The *Capital Allocation Fund* is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital assets. These include buildings and major equipment including computers. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. At December 31, 2010, the balance was \$3,411,000 (2009 – \$3,798,000).

Invested in Capital Assets Fund

The *Invested in Capital Assets Fund* records transactions related to the Society's capital assets, specifically acquisitions, amortization and disposals. At December 31, 2010, the balance was \$16,989,000 (2009 – \$17,998,000), representing the net book value of the Society's capital assets.

County Libraries Fund

The *County Libraries Fund* records transactions related to the Society's support of county law libraries. As approved by Convocation, the fund accumulates fees for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2010 and 2009 was nil.

Working Capital Reserve

The *Working Capital Reserve* was approved by Convocation to ensure adequate cash reserves for the continuous financing of the General Fund operations for up to two months. The fund balance at December 31, 2010 and 2009 was \$10,675,000.

Other Restricted Funds

The *Repayable Allowance Fund* provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2010, the balance was \$159,000 (2009 – \$107,000).

The *J. Shirley Denison Fund*, an endowment fund, provides relief and assistance to lawyers, candidates in the lawyer licensing process and former lawyers who find themselves in difficult financial circumstances. Contributions for endowments are recognized as revenues. At December 31, 2010, the balance was \$92,000 (2009 – \$123,000).

The *Special Projects Fund* is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2010 was \$202,000 (2009 – \$246,000).

The *Parental Leave Assistance Fund* accounts for the delivery of the Parental Leave Assistance Program (“PLAP”). PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who do not have access to any other parental leave financial benefits.

PLAP was established in 2009 as a three-year pilot and is funded by lawyers’ fees. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave.

At December 31, 2010, the Fund balance was \$164,000 (2009 – \$163,000), which will be carried over to the next year to be used to fund the program.

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants (“CICA”) using the restricted fund method of reporting revenues.

In December 2010, the CICA issued a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations will have to choose between Canadian accounting standards for not-for-profit organizations (Part III of the CICA Handbook) and International Financial Reporting Standards (Part I of the CICA Handbook). Early adoption is permitted. The Society plans to adopt Part III of the CICA Handbook, commencing in 2012, and has determined that the impact on its 2012 and 2011 financial statements of adopting these standards will not be significant.

Financial instruments

Under the standards for recognizing and measuring financial instruments, all financial assets are classified into one of the following four categories: held for trading, held to maturity, loans and receivables or available for sale. All financial liabilities are classified into one of the following two categories: held for trading or other financial liabilities.

The Society’s financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	Category	Measurement
Cash and short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Portfolio investments	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Unclaimed trust funds	Other financial liabilities	Amortized cost

Other amounts noted on the Balance Sheet such as prepaid expenses, capital assets, investment in subsidiaries, deferred revenue, and the provisions for unpaid grants / claims, are not financial instruments. Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to published quotations in an active market at year end for fixed income and by reference to transactional net asset value for the Canadian equity pooled fund. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed by the Society’s investment policy. The Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

Market risk

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed by the Society's investment policy which requires a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements.

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year end, the maximum exposure of the Society to credit risk in cash and short and long-term fixed income investments was \$92,937,000 (2009 –\$109,630,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year end, the maximum exposure of the Society to credit risk in accounts receivable was \$2,024,000 (2009 – \$1,945,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

Cash and short-term investments

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

Portfolio investments

Portfolio investments are categorized as held for trading and are recorded at fair value. The Society manages financial risk associated with portfolio investments in

accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy. The Society does not use derivative financial instruments to manage risk.

The total amount of the unrealized change in the fair value of portfolio investments recognized as investment income during the year is \$854,000 (2009 – \$5.1 million).

Capital assets

Capital assets are presented at cost net of accumulated amortization. For purposes of calculating the first year's amortization, all capital assets are deemed to be acquired, put into service, or completed on July 1. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

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

Revenue recognition

Member fees, premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year. Premium revenues are recognized on a pro rata basis over the term of the respective insurance policies. Premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue. Transaction-based levies are recorded as revenues in the year received.

Professional Development & Competence, and other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees and premiums receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

Grant - related balances

Included in the provision for unpaid grants/claims is the provision for unpaid Compensation Fund grants. Pursuant to section 51(5) of the *Law Society Act*, the payment of grants from the Compensation Fund is at the discretion of Convocation. For claims in respect of funds advanced by a claimant to a lawyer on or after April 24, 2008, grants paid from the lawyer pool of the Compensation Fund are subject to a \$150,000 limit per applicant. This was increased from a grant limit of \$100,000 for funds advanced prior to this date. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per applicant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants for the lawyer pool and paralegal pool are recorded as liabilities on the balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs. Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 3.49% (2009- 4.05%).

Claim - related balances

Included in the provision for unpaid grants/claims is the provision for unpaid E&O Fund claims. The provision for unpaid claims in the E&O Fund reflects management's best estimates of the ultimate exposure to applicable claims. The provision consists of case estimates prepared by claims professionals as well as a provision for potential adverse developments. The estimates include related investigation, settlement and adjustment expenses. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income. The provision is recorded net of anticipated, reinsurance, salvage and subrogation recoveries.

The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid claims and any related recoveries for reinsurance and deductibles, involves estimates and measurement uncertainty. The amounts are based on estimates of future trends in claim severity and other factors which could vary as claims are settled.

Variability can be caused by several factors including the emergence of additional information on claims, changes in judicial interpretation and significant changes in severity or frequency of claims from historical trends. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. An actuary assists in the valuation of claims liabilities at least annually. As adjustments to estimated claims liabilities become necessary, they are reflected in current operations.

Claim liabilities are carried on a discounted basis using the yield of the underlying assets backing the claim liabilities, with a provision for adverse deviation, in accordance with accepted actuarial practice. The discount rate is 2.87% (2009 – 2.96%).

Expected reinsurance and deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts at the same time as the related claims liability.

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

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, appointed by the provincial government or have ex-officio status by virtue of their office or past service as elected benchers or Treasurers. In addition, the Paralegal Standing Committee is responsible for developing policy related to paralegal regulation for Convocation's approval. Licensed paralegals elect five paralegal members to the

Paralegal Standing Committee. In total there are 13 members of the Paralegal Standing Committee: five paralegals, five lawyers and three lay benchers. Two paralegal benchers are elected by the Paralegal Standing Committee's five paralegal members and three lay benchers.

Elected, ex-officio benchers and Paralegal Standing Committee members are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

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.

The valuation of liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

4. Investment in Subsidiaries

Investment in the Society's subsidiaries is recorded at cost:

	2010	2009
LAWPRO	35,642,000	35,642,000
LibraryCo	100	100
Total investment in subsidiaries	35,642,100	35,642,100

LAWPRO

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5 million in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares. In the period from 1995 to 1997, the Society transferred a net amount of \$30.6 million in capitalization funding as contributed surplus to LAWPRO.

Summarized balance sheet of LAWPRO at December 31:

(\$000's)	2010	2009
Investments	475,380	434,963
Other assets	75,609	94,723
Total assets	550,989	529,686
Provision for unpaid claims and adjustment expenses	341,231	338,370
Other liabilities	50,451	50,249
Total liabilities	391,682	388,619
Capital stock issued and paid	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	117,153	101,940
Accumulated other comprehensive gain	6,509	3,482
Total shareholder's equity	159,307	141,067
Total liabilities and shareholder's equity	550,989	529,686

Summarized statement of income of LAWPRO for the year ended December 31:

(\$000's)	2010	2009
Net premiums earned	100,438	101,493
Underwriting expenses	(97,616)	(124,093)
Underwriting income (loss)	2,822	(22,600)
Investment income	19,253	11,956
Income (loss) before taxes	22,075	(10,644)
Income tax (expense) recovery	(6,862)	4,167
Net income (loss)	15,213	(6,477)
Other comprehensive income net of tax	3,027	13,665
Comprehensive income	18,240	7,188

Summarized statement of cash flows of LAWPRO for the year ended December 31:

(\$000's)	2010	2009
Net cash inflow from operating activities	37,580	21,553
Net cash outflow from investing activities	(33,200)	(12,121)
Cash and cash equivalents, beginning of year	12,471	3,039
Cash and cash equivalents, end of year	16,851	12,471

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$94,786,000 (2009 – \$95,086,000) for premiums during the year. LAWPRO paid the Society \$182,000 (2009 – \$190,000) primarily for shared information systems and governance costs. Included in the Society's liabilities are amounts due to LAWPRO of \$4,108,000 (2009 – \$19,124,000).

LibraryCo

LibraryCo, a wholly owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the *Business Corporations Act (Ontario)* in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25

are held by the Toronto Lawyers Association ("TLA") and 75 are held by the County and District Law Presidents' Association ("CDLPA"). The Society may appoint up to four directors, CDLPA may appoint up to three directors and TLA may appoint one director. The investment is recorded at cost on the Society's Balance Sheet.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo at December 31:

	2010	2009
Total assets	1,696,313	1,782,817
Total liabilities	85,219	78,593
Share capital issued and paid	200	200
General fund	725,506	818,636
Reserve fund	885,388	885,388
Total share capital and fund balances	1,611,094	1,704,224
Total liabilities, share capital and fund balances	1,696,313	1,782,817

Summarized statement of income of LibraryCo for the year ended December 31:

	2010	2009
Total revenue	7,734,127	8,128,290
Expenses		
Head office and administrative expenses	684,885	662,996
Centralized purchases	1,270,434	1,108,711
Law library grants	5,871,938	5,707,999
Total expenses	7,827,257	7,479,706
(Deficit) / surplus	(93,130)	648,584

Summarized statement of cash flows of LibraryCo for the year ended December 31:

	2010	2009
Net cash (outflow) inflow from operating activities	(90,622)	655,523
Cash and short-term investments, beginning of year	1,750,325	1,094,802
Cash and short-term investments, end of year	1,659,703	1,750,325

The Society administers the operations of LibraryCo under an administrative services agreement signed in 2007. The total amount billed by the Society was \$706,000 (2009 – \$670,000) for administrative services and certain other services and publications. At year end, LibraryCo owed the Society \$66,000 (2009 – \$60,000).

5. Related Corporation

The Law Society Foundation (“LSF”) is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates 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, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in accounts receivable are amounts due from the LSF of \$34,000 (2009 – \$14,000).

6. Portfolio Investments

(\$000’s)	2010	2009
Debt securities	60,936	73,045
Canadian equities	14,322	8,758
Total portfolio investments	75,258	81,803

The effective yields on debt securities range from 1.2% to 3.3% with maturity dates from 1 to 5 years.

7. Capital Assets

(\$000’s)	2010		2009	
	Cost	Accumulated Amortization	Net	Net
Land and buildings	25,396	19,419	5,977	6,527
Building improvements	21,461	11,290	10,171	10,972
Furniture, equipment and computer hardware and software	6,899	6,058	841	499
Total capital assets	53,756	36,767	16,989	17,998

8. Provision for Unpaid Grants / Claims

(\$000’s)	2010	2009
Provision for unpaid grants – Compensation Fund	9,648	13,094
Provision for unpaid claims – E&O Fund	686	1,147
TOTAL	10,334	14,241

Provision for Unpaid Grants – Compensation Fund

(\$000’s)	2010	2009
Provision for unpaid grants, beginning of year	13,094	12,270
Change in provision for grants	(2,397)	(222)
Change in provision for adjustment expenses	(902)	995
Change in discounting and adverse deviations	(147)	51
Provision for unpaid grants, end of year	9,648	13,094

Provision for Unpaid Claims – E&O Fund

(\$000’s)	2010	2009
Provision for unpaid claims and adjustment expenses, beginning of year	1,147	2,064
Change in net provision for claims and adjustment expenses	(286)	(883)
Net claims, adjustment expenses paid and discounting	(175)	(34)
Provision for unpaid claims and adjustment expenses, end of year	686	1,147

9. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$2,184,000 (2009 – \$1,945,000).

10. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2010, total funds held in trust amount to \$2,685,000 (2009 – \$1,964,000).

11. Other Revenues

Included in other revenues is income from the *Ontario Reports*, catering, the Lawyer Referral Service, specialist certification and an \$8 million legal settlement of all claims, damages and expenses related to a longstanding matter regarding the valuation of the E&O Fund's pre-1995 claims reserves.

12. Other Expenses

Included in other expenses are payments to the Federation of Law Societies, County and District Law Presidents' Association, insurance, professional fees, termination payments, catering, other corporate expenses and governance related disbursements. The total remuneration and expense reimbursements of elected and ex-officio benchers and Paralegal Standing Committee members during the year was \$589,000 (2009 – \$475,000) and \$546,000 (2009 – \$577,000) respectively. The Treasurer's honorarium for the year was \$104,000 (2009 – \$103,000).

13. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elect to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society pension expense in 2010 amounted to \$2,008,000 (2009 – \$1,913,000).

14. Capital Management

The Society is a corporation without share capital, incorporated with the enactment of the *Law Society Act*. The Society's capital comprises Fund Balances which are described separately in these notes. As at December 31, 2010, the Society's Fund Balances totalled \$128,235,000 (2009 – \$121,062,000). The Society's objectives when managing capital are to provide sufficient funding to carry out its functions, duties and powers and maintain financial strength. There are no externally imposed requirements.

15. Commitments

The Society is committed to monthly lease payments for property under leases having various terms up to April 2020. Aggregate minimum annual payments to the expiry of the leases are as follows:

2011–2014	802,000
2015	797,000
Thereafter	761,000

In 2007, the Society made a five-year commitment in the annual amount of \$100,000 to the Ontario Law Commission to support its operations.

16. Contingent Liabilities

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, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements would be material to the Society's financial position.

17. Guarantees

In the normal course of business, the Society has entered into agreements that meet the definition of a guarantee, including indemnities in favour of third parties, such as confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. Under the terms of these agreements, the Society agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

The Society has also provided indemnification to all directors and officers of the Society. Under section 9 of the *Law Society Act*:

“No action or other proceedings for damages shall be instituted against the Treasurer or any bencher, official of the Society or person appointed in Convocation for any act done in good faith in the performance or intended performance of any duty or in the exercise or in the intended exercise of any power under this Act, a regulation, a by-law or a rule of practice and procedure, or for any neglect or default in the performance or exercise in good faith of any such duty or power.”

Notwithstanding section 9, the Society has also purchased errors and omissions insurance for past and present officers, employees, committee members, benchers, agents and volunteers acting on behalf of the Society, its subsidiaries and affiliates, to mitigate the cost of any potential suit or action. No estimate of the maximum exposure under these indemnifications can be made and historically the Society has not made any significant payments under such or similar indemnification agreements. No amount has been accrued in the financial statements with respect to these agreements.