

LET RIGHT PREVAIL

The Law Society of  
Upper Canada

Barreau  
du Haut-Canada



2009 Annual Report  
Financial Statements

*Financial*

**THE LAW SOCIETY OF UPPER CANADA  
2009 ANNUAL REPORT**

**Financial Statements**

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*financial statements*

# Management Discussion and Analysis

The Society's operational results are presented as a single set of entity statements that include the General Fund, the Compensation Fund, the Errors & Omissions Insurance Fund ("E&O Fund") and other restricted funds.

This financial reporting combines the General Fund, the Compensation Fund and the E&O Fund into one entity report, allowing the Society and its non-consolidated subsidiary, Lawyers' Professional Indemnity Company ("LAWPRO"), to better adapt to changes in financial reporting, such as International Financial Reporting Standards which LAWPRO will follow from 2011. The combination of the three main funds also presents a more comprehensive picture of the Society's operations.

From 1996 to 2008, the Society reported the results of its operations in separate financial statements for the General Fund (including a number of restricted funds) and the Compensation Fund, and reported the results of the E&O Fund together with LAWPRO in a set of combined financial statements.

A separate Performance Highlights section of the Annual Report provides greater qualitative analysis of progress towards the priorities of the Law Society.

## Accounting Standards

The Accounting Standards Board and the Public Sector Accounting Board are working together to assess the strategic direction of financial reporting standards for not-for-profit organizations in Canada. Until these new standards are finalized, the Society continues to use the existing accounting standards used by the not-for-profit sector.

As noted above, this is the first year since 1995 that the Law Society is producing entity annual financial statements. The annual financial statements include comparatives for 2008, the transition year between the current entity annual financial statements and the prior annual financial statements by Fund.

## Financial Statements

The Annual Financial Statements for 2009 comprise the following audited statements with comparative numbers for 2008:

- Balance Sheet
- Statement of Revenues and Expenses
- Statement of Changes in Fund Balances
- Statement of Cash Flows

## Summary of Financial Performance

The Society is reporting an operating deficit for 2009 of \$18.6 million, compared to a deficit of \$7.7 million in 2008.

Of the \$18.6 million deficit in 2009, \$16.5 million is the result of E&O Fund operations. Primary components of the \$16.5 million E&O Fund deficit are:

- The approved insurance program for 2009 anticipated an E&O Fund deficit of \$4.6 million to be funded from the E&O Fund balance.
- \$10.5 million of this deficit arises from the impact of the pending implementation of Harmonized Sales Tax ("HST") in Ontario on LAWPRO's reserve for claims. This resulted in a retrospective premium adjustment of the same amount against the Society's E&O Fund. The impact of HST on LAWPRO's claims reserves was not known at the time of the adoption of the 2009 insurance program by Convocation. As a consequence, the 2009 base premium was insufficient to cover this unexpected expense. LAWPRO recouped this retroactive charge through the retrospective premium provisions of the policy.

The impact of the results of the E&O Fund is reflected on the Balance Sheet by the decrease in the Fund balance from \$75.8 million at the end of 2008 to \$57.4 million at the end of 2009, and the increase in the amount due to LAWPRO from \$7.4 million in 2008 to \$19.1 million in 2009.

Subsequent to year end, the Society received \$8 million as final settlement for all claims, damages and expenses related to a longstanding matter regarding the valuation of the E&O Fund's pre-1995 claims reserves. The settlement will be included in the E&O Fund's revenues in 2010.

The Society's General Fund, the fund that reports the bulk of the Society's operations related to its regulatory and competence mandate, had a deficit of \$903,000 (2008 – surplus of \$1.5 million). The Society's financial plan as presented in its 2009 budget anticipated a General Fund deficit of \$4.9 million to be funded by a transfer of surplus investment income (\$2 million) from the E&O Fund, a transfer (\$1.7 million) from the Society's Working Capital Reserve and the utilization of a portion (\$1.2 million) of the General Fund balance.

The actual results of General Fund operations avoided the need to transfer funds from the Working Capital Reserve or draw on the Fund's accumulated balance. The E&O Fund surplus investment income of \$2 million was transferred in April 2009 and is reported on the Statement of Changes in Fund Balances.

Several areas of the Society's operations completed the year with large savings in anticipated spending. Professional Regulation experienced major cost savings on expenditures for outside counsel, expert witness and cost awards. These savings contributed approximately \$1.2 million towards the lower deficit. Professional Development & Competence expenditures for lawyer licensing process and continuing legal education combined to provide approximately \$575,000 in savings on anticipated spending. The third major area of savings was for bench and Convocation related expenses. A reduction in the number of Committee and Convocation days contributed to savings in expense reimbursements for travel, accommodation and remuneration. In total, bench and Convocation related expenses contributed approximately \$430,000 in savings.

The Compensation Fund reported a surplus of \$1.4 million (2008 – \$1.6 million deficit). The surplus arises primarily as a result of improved investment performance for 2009 and a lower provision for grants than was the case in 2008.

The \$2.8 million deficit in the Invested in Capital Assets Fund arises from the amortization of the Society's capital assets. This is a non-cash expense that is not budgeted as part of the Society's annual budget process, and therefore no revenue is raised to apply against this expense.

The Society's remaining restricted Funds report small surpluses or deficits that do not materially impact the Society's operations. These are all reported on the Statement of Changes in Fund Balances.

## Balance Sheet

### *Cash and Short-Term Investments*

The increase in Cash and Short-Term Investments is attributable to the increase in deferred revenue, primarily being annual fees and premiums for the next year being received prior to year end.

### *Investment in Subsidiaries*

The 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 \$81.8 million compared to \$88.7 million in 2008. The decline in the E&O Fund investments resulted from the sale of investments to fund a \$2 million transfer of surplus investment income to the General Fund, the payment of the 2008 balance due to LAWPRO and the repayment of LAWPRO capitalization levies to the General Fund. 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:

	<b>2009</b>	<b>2008</b>
E&O Fund	\$42,504	\$54,217
Compensation Fund	27,129	23,697
General Fund	12,170	10,786
<b>Total</b>	<b>\$81,803</b>	<b>\$88,700</b>

Investments comprise Canadian equities (11%) and Canadian fixed income investments (89%). The portfolio is managed in compliance with the Society's investment policies. 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 listed on the Toronto Stock Exchange.

### *Capital Assets*

The decrease in capital assets to \$17.9 million from \$19.5 million reflects amortization for the period, offset by \$1.3 million in additions for projects such as the replacement of heating pipes, as well as software upgrades.

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 increased to \$12.4 million from \$8.3 million. The increase relates primarily to more future year insurance premiums and membership fees received in 2009 as compared to 2008. 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 has increased to \$19.1 million from \$7.4 million. The increase primarily comprises the amount due for the retrospective premium adjustment outlined in the insurance contract with LAWPRO. Included in this retrospective premium is \$10.5 million arising from the pending implementation of HST in Ontario effective July 1, 2010 and its impact on the existing actuarial valuation of LAWPRO's reserves for claims.

### *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 \$14.3 million in 2008 to \$14.2 million in 2009.

The reserve for Compensation Fund grants has increased to \$13.1 million from \$12.3 million in line with the increase in grants anticipated to be closed with payment. The paralegal Compensation Fund grant reserve comprises \$134,000 (2008 – \$64,000) of the total \$13.1 million reserve for unpaid grants.

The balance of the E&O Fund provision for unpaid claims is \$1.1 million (2008 – \$2 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 \$1.9 million compared to \$1.8 million at the end of 2008.

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. To date, administrative expenses have exceeded income and no transfers to the Law Foundation of Ontario 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 2009, total funds held in trust amounted to \$2 million (2008 – \$2.5 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 \$40.6 million from \$37.5 million in 2008 as a consequence of an increased number of lawyers and a fee increase of \$50 per lawyer. Paralegal fee billings were for the full year in 2009 with paralegal member numbers continuing to increase and the fee increasing by \$55. In 2008, the billing of paralegals for annual fees commenced in May.

#### *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 \$72.1 million in 2008 to \$74.4 million in 2009. The base premium was \$2,450 per lawyer in 2009, an increase of \$150 from the base premium charged in 2008. Supplemental levies, such as the real estate transaction levies, are sensitive to economic conditions and declined from 2008, in line with the economy.

#### *Professional Development & Competence*

Professional Development & Competence revenues have decreased to \$10.9 million from \$14.7 million in 2008. This is due to an expected decrease in the number of paralegal applicants for the licensing process in 2009. 2008 was the first year for the paralegal licensing, resulting in a high initial volume of candidates. In addition, there has been a reduction in continuing legal education registration revenue with fewer course offerings and decreased demand. Finally, lawyer licensing process fees were decreased from \$2,940 in 2008 to \$2,400 per candidate as a result of changes to the licensing process approved by Convocation.

Included in Professional Development & Competence revenues are grants from the Law Foundation of Ontario totalling \$928,000 in 2009 as compared to \$1.2 million in 2008.

#### *Investment Income*

The last half of 2008 saw financial markets worldwide tumble; the TSX, for example, lost approximately 40% of its value from its high in June of 2008. The rapid rebound in 2009 has seen the TSX recover half of the value it lost in 2008. This rapid and dramatic fluctuation in the value of equities has had a significant impact on the investment income reported on the Society's financial statements. Total investment income has increased to \$7.1 million from \$2.6 million. All portfolio investments held by the Society are classified as held for trading. Accordingly, changes in market value are reported as income. There were unrealized gains of \$5.1 million in 2009 compared to unrealized losses of \$3.2 million in 2008, in line with market conditions.

#### *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.

## **Expenses**

#### *Professional Regulation*

Regulatory expenses of \$18.1 million are higher than 2008 by \$1.6 million. As envisaged in the 2009 budget, these expenses increased in response to the increasing number of complaints, discipline hearings and the costs of paralegal good character hearings.

#### *Professional Development & Competence*

Professional Development & Competence expenses are \$500,000 more than 2008 (\$16.4 million versus \$15.9 million). Reductions as a result of changes to the licensing process, primarily providing the Professional Responsibility and Practice course online, were offset by planned increases in the activities of the practice review and spot audit departments (in line with Convocation's approval of expansion to these competence programs.) Continuing legal education expenses also decreased in line with the reduction in programs and attendance as noted in the revenue section.

#### *Administrative Expenses*

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

#### *Other expenses*

Other expenses include bench-related payments, payments to the Federation of Law Societies, insurance, catering costs and other miscellaneous expenses, all of which total \$6.3 million for the year, a decrease from \$6.6 million in 2008. One reason for the decrease was the reduction in the number of Convocation and Committee days.

#### *Errors & Omissions Insurance Fund*

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

Premiums remitted to LAWPRO have increased from \$78.8 million in 2008 to \$95.1 million in 2009 due to the retrospective premium provisions under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged or premium refunds are made. Under these provisions, LAWPRO made retrospective premium assessments totalling \$13.6 million for 2009 (2008 – refunded \$1.4 million). The 2009 amount includes \$10.5 million arising from the pending implementation of HST in Ontario effective July 1, 2010 and \$3.1 million due to unfavourable underwriting results.

### *Compensation Fund*

Compensation Fund expenses for lawyers have decreased to \$8.9 million from \$9.1 million in 2008. Expenses related to grants decreased by nearly \$1 million as the 2008 provision for grants was relatively high due to unusually high claims against the Fund as a result of the activities of two lawyers. Costs for spot audit, investigations and discipline allocated from the General Fund have increased by approximately \$1 million over 2008, as those programs have expanded as budgeted.

Compensation Fund expenses for paralegals were \$268,000 in 2009 compared to \$196,000 in 2008.

### *County Libraries Fund*

Funding of county libraries totalled \$7.4 million or \$220 per lawyer compared to the 2008 funding of \$7.7 million or \$235 per lawyer. The decrease is primarily attributable to the reduction in LibraryCo Inc. expenditures on electronic products, as the menu for these products has been rationalized based on the research needs of lawyers.

### *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 \$377,000 to 51 successful applicants in 2009. These PLAP expenses are included in other restricted funds.

### **Statement of Changes in Fund Balances**

In addition to the previous discussion on operational revenues and expenses, there were several interfund transfers between the General Fund and the Society's restricted funds. The largest of these was the budgeted transfer of \$2 million (2008 – \$3.7 million) in surplus investment income from the E&O Fund to the General Fund.

The Working Capital Reserve remained at \$10.7 million during the year, approximately equal to two months' operating expenses, as approved by Convocation. As part of the 2009 budget, \$1.7 million was to be appropriated from this reserve to mitigate the annual fee increase for lawyers. This transfer was not required.

The lawyer General Fund balance is now \$8.3 million and the paralegal General Fund balance is now \$1.5 million for a total of \$9.8 million at the end of 2009. \$6.7 million of this accumulated balance - \$5.8 million for lawyers and \$920,000 for paralegals - has been earmarked for the reduction of annual fees in 2010.

The Compensation Fund balance of \$20.8 million for lawyers and paralegals has increased by approximately \$1.4 million with a decline in the provision for grants over 2008 and improved investment income.

### **Conclusion**

The Society remains financially sound. The General Fund balance has increased by approximately \$750,000 to \$9.8 million over the course of 2009. Approximately \$6.7 million of that has been dedicated to mitigate increases to annual fees for lawyers and paralegals in 2010.

The Compensation Fund balance in total has increased by almost \$1.4 million over 2008, with the lawyer pool retaining a balance of over \$20.7 million and the paralegal pool at \$42,000. The paralegal pool is relatively small; however, the pool is only in its second year of operation and its balance has increased from \$7,000 in 2008.

The Capital Allocation Fund has declined by approximately \$1 million, as expected with the reduction in the \$75 per member capital levy in 2009 to \$45. The Fund's levy has been increased to \$65 for 2010 and it is anticipated that its balance should stabilize.

The Working Capital Reserve remains at \$10.7 million.

The E&O Fund saw a large reduction in 2009 primarily as a result of the retroactive impact on the cost of claims of \$10.5 million as a consequence of pending HST legislation in Ontario.

The Society's accumulated fund balances total over \$121 million of which \$18 million represents the book value of the Society's fixed assets, \$35.6 million the value at cost of its investments in LAWPRO and LibraryCo and approximately \$67 million available to support future operations.

## Auditors' Report

To the Members of  
The Law Society of Upper Canada

We have audited the balance sheet of The Law Society of Upper Canada as at December 31, 2009 and the statements of revenues and expenses, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our 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 Society as at December 31, 2009 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*

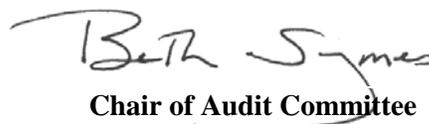
Chartered Accountants  
Licensed Public Accountants  
February 19, 2010 (except for Note 17, which is as of March 9, 2010)

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

Stated in thousands of dollars as at December 31

	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash	18,223	9,758
Short-term investments	18,361	21,067
Cash and short-term investments	36,584	30,825
Accounts receivable (note 4)	1,945	2,067
Prepaid expenses	1,484	1,357
<b>Total current assets</b>	<b>40,013</b>	<b>34,249</b>
<b>Investment in subsidiaries (note 4)</b>	<b>35,642</b>	<b>35,642</b>
<b>Portfolio investments (note 5)</b>	<b>81,803</b>	<b>88,700</b>
<b>Capital assets (note 6)</b>	<b>17,998</b>	<b>19,492</b>
<b>Total Assets</b>	<b>175,456</b>	<b>178,083</b>
<b>Liabilities and Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	6,655	6,632
Deferred revenue	12,429	8,265
Due to LAWPRO (note 4)	19,124	7,392
<b>Total current liabilities</b>	<b>38,208</b>	<b>22,289</b>
Provision for unpaid grants/claims (note 7)	14,241	14,334
Unclaimed trust funds (note 8)	1,945	1,796
<b>Total Liabilities</b>	<b>54,394</b>	<b>38,419</b>
<b>Fund Balances</b>		
<b>General fund</b> – lawyers	<b>8,294</b>	<b>7,809</b>
– paralegals	<b>1,506</b>	<b>1,249</b>
<b>Restricted funds</b>		
Compensation – lawyers	20,741	19,408
– paralegals	42	7
Errors and omissions insurance	57,369	75,842
Capital allocation	3,798	4,772
Invested in capital assets	17,998	19,492
Other	639	410
Working capital reserve	10,675	10,675
<b>Total Fund Balances</b>	<b>121,062</b>	<b>139,664</b>
<b>Total Liabilities and Fund Balances</b>	<b>175,456</b>	<b>178,083</b>

*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

	2009			2008		
	General Fund	Restricted Funds	Total	General Fund	Restricted Funds	Total
<b>Revenues</b>						
Annual fees	40,618	17,149	57,767	37,518	16,862	54,380
Insurance premiums and levies	-	74,403	74,403	-	72,156	72,156
Professional development and competence	10,940	-	10,940	14,700	-	14,700
Investment income	1,116	6,031	7,147	1,064	1,521	2,585
Other (note 10)	5,448	388	5,836	5,407	249	5,656
<b>Total revenues</b>	<b>58,122</b>	<b>97,971</b>	<b>156,093</b>	<b>58,689</b>	<b>90,788</b>	<b>149,477</b>
<b>Expenses</b>						
Professional regulation	18,097	-	18,097	16,535	-	16,535
Professional development and competence	16,379	-	16,379	15,854	-	15,854
Administrative	8,736	-	8,736	8,583	-	8,583
Other (note 11)	6,356	-	6,356	6,595	-	6,595
Client service centre	5,333	-	5,333	5,202	-	5,202
Facilities	4,044	-	4,044	3,796	-	3,796
Policy and legal services	2,214	-	2,214	2,120	-	2,120
Communications	1,465	-	1,465	1,377	-	1,377
Equity	1,164	-	1,164	970	-	970
Tribunals	942	-	942	859	-	859
Errors and omissions insurance fund	-	94,374	94,374	-	79,162	79,162
Compensation fund – lawyers	-	8,879	8,879	-	9,069	9,069
Compensation fund – paralegals	-	268	268	-	196	196
Capital allocation fund	-	1,367	1,367	-	714	714
Invested in capital assets – amortization	-	2,847	2,847	-	3,112	3,112
County libraries fund	-	7,435	7,435	-	7,691	7,691
Other restricted funds	-	500	500	-	140	140
<b>Total expenses</b>	<b>64,730</b>	<b>115,670</b>	<b>180,400</b>	<b>61,891</b>	<b>100,084</b>	<b>161,975</b>
Expenses allocated to Compensation Fund (note 2)	(5,705)	-	(5,705)	(4,749)	-	(4,749)
<b>Net expenses</b>	<b>59,025</b>	<b>115,670</b>	<b>174,695</b>	<b>57,142</b>	<b>100,084</b>	<b>157,226</b>
<b>(Deficit) Surplus</b>	<b>(903)</b>	<b>(17,699)</b>	<b>(18,602)</b>	<b>1,547</b>	<b>(9,296)</b>	<b>(7,749)</b>

*See accompanying notes*

# THE LAW SOCIETY OF UPPER CANADA

## Statement of Changes in Fund Balances

Stated in thousands of dollars for the year ended December 31

	2009												2008	
	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		
<b>Fund balances, beginning of year</b>	7,809	1,249	9,058	19,408	7	75,842	4,772	19,492	-	410	10,675	130,606	139,664	147,413
<b>Revenues</b>	54,981	3,141	58,122	10,212	303	77,901	1,746	-	7,268	541	-	97,971	156,093	149,477
<b>Expenses</b>	56,141	2,884	59,025	8,879	268	94,374	1,367	2,847	7,435	500	-	115,670	174,695	157,226
<b>(Deficit) surplus</b>	(1,160)	257	(903)	1,333	35	(16,473)	379	(2,847)	(167)	41	-	(17,699)	(18,602)	(7,749)
<b>Interfund transfers</b>														
<b>Errors and omissions insurance surplus investment income</b>	2,000	-	2,000	-	-	(2,000)	-	-	-	-	-	(2,000)	-	-
<b>Asset capitalization</b>	-	-	-	-	-	-	(1,353)	1,353	-	-	-	-	-	-
<b>Transfer to county libraries fund</b>	(167)	-	(167)	-	-	-	-	-	167	-	-	167	-	-
<b>Transfer to repayable allowance fund</b>	(100)	-	(100)	-	-	-	-	-	-	100	-	100	-	-
<b>Transfer to special projects fund</b>	(88)	-	(88)	-	-	-	-	-	-	88	-	88	-	-
<b>Total interfund transfers</b>	1,645	-	1,645	-	-	(2,000)	(1,353)	1,353	167	188	-	(1,645)	-	-
<b>Fund balances, end of year</b>	8,294	1,506	9,800	20,741	42	57,369	3,798	17,998	-	639	10,675	111,262	121,062	139,664

See accompanying notes

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

Stated in thousands of dollars for the year ended December 31

	<b>2009</b>	<b>2008</b>
<b>Net inflow (outflow) of cash related to the following activities</b>		
<b>Operating</b>		
Deficit	(18,602)	(7,749)
Items not affecting cash:		
Change in provision for grants/claims	(93)	2,148
Amortization of capital assets	2,847	3,112
	<b>(15,848)</b>	<b>(2,489)</b>
Net change in non-cash operating items:		
Accounts receivable	122	(458)
Prepaid expenses	(127)	(305)
Accounts payable and accrued liabilities	23	(36)
Due to LAWPRO	11,634	(3,045)
Deferred revenue	4,262	(2,417)
Fund contribution – unclaimed trusts	149	145
<b>Cash from (used in) operating activities</b>	<b>215</b>	<b>(8,605)</b>
<b>Investing</b>		
Portfolio investments, net	6,897	11,741
Short-term investments, net	2,706	(1,361)
Capital asset additions	(1,353)	(1,099)
<b>Cash from investing activities</b>	<b>8,250</b>	<b>9,281</b>
<b>Net inflow of cash, during the year</b>	<b>8,465</b>	<b>676</b>
Cash, beginning of year	9,758	9,082
<b>Cash, end of year</b>	<b>18,223</b>	<b>9,758</b>
<b>Supplementary Cash Flow Information</b>		
Interest received	1,424	1,549
Interest paid	-	-

*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, 2009, the Society had a membership of approximately 41,000 lawyers and 2,700 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 restricted and general funds.

As a not-for-profit corporation, the Society is not subject to income or capital taxes.

### 2. Nature of Financial Statements

This is the first time since 1995 that the Society has compiled entity financial statements. The Society’s previous annual report for the 2008 financial year provided a separate financial statement for the General Fund, a separate financial statement for the Compensation Fund and a separate financial statement for the Combined Errors & Omissions Insurance Fund.

These entity financial statements present the financial position and operations of the Society and include the General Fund, which is separated between lawyers and paralegals, and a number of special purpose funds restricted by the *Law Society Act* or Convocation.

#### **Related corporations**

The Society’s financial statements do not purport to present all of the assets and liabilities under the control of the Society. Separate financial statements have been prepared for the Lawyers’ Professional Indemnity Company (“LAWPRO”), LibraryCo Inc., and the Law Society Foundation which have not been consolidated into the Society’s financial statements. Information on these corporations is provided in Note 4.

#### **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, 2009 the lawyer fund balance was \$8,294,000 (2008 – \$7,809,000) and the paralegal fund balance was \$1,506,000 (2008 – \$1,249,000).

#### **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 2009 these amounted to \$5,705,000 (2008 – \$4,749,000). At December 31, 2009 the lawyer pool share of the fund balance was \$20,741,000 (2008 – \$19,408,000) and the paralegal pool share of the fund balance was \$42,000 (2008 – \$7,000).

#### ***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 the levies exceed the anticipated amounts, the excess remains in the E&O Fund and is applied as premiums in future years. If there is a shortfall for the year, the shortfall is met by additional funds from the E&O Fund. The net contribution to the 2009 insurance program from the E&O Fund balance was \$7,115,000 (2008 – \$8,071,000).

There are retrospective premium provisions under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged or premium

refunds are made. Under these provisions, LAWPRO made retrospective premium assessments totalling \$13,568,000 for 2009 (2008 – refunded \$1,415,000). This amount included \$10,488,000 arising from the pending implementation of harmonized sales tax, applied retroactively, in Ontario, effective July 1, 2010.

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. The E&O Fund's provision for unpaid claims liabilities totals \$1,147,000 (2008 – \$2,064,000).

At December 31, 2009, the E&O Fund balance was \$57,369,000 (2008 – \$75,842,000) of which \$35,642,000 (2008 – \$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, 2009, the balance was \$3,798,000 (2008 – \$4,772,000).

#### ***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, 2009 the balance was \$17,998,000 (2008 – \$19,492,000), 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 Inc. The fund balance at December 31, 2009 and 2008 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. At December 31, 2009, the balance was \$10,675,000 (2008 – \$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, 2009, the balance was \$107,000 (2008 – \$71,000).

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, 2009, the balance was \$123,000 (2008 – \$180,000).

The *Special Projects Fund* is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2009 was \$246,000 (2008 – \$159,000).

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, 2009, the Fund balance was \$163,000 (2008 – nil), 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.

#### ***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:

<b>Asset / Liability</b>	<b>Category</b>	<b>Measurement</b>
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.

#### ***Currency risk***

The risk that the fair value of financial instruments will fluctuate relative to the Canadian dollar is managed by the investment policies of the General Fund, Compensation Fund and E&O Fund. In 2009, the investment policies were revised, prohibiting securities denominated in a foreign currency (in 2008, 7% of equity investments were denominated in United States dollars).

#### ***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 policies. 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 policies which require a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements as presented in Note 5.

### **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 \$109,630,000 (2008 – \$107,420,000). In compliance with the 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 \$1,945,000 (2008 – \$2,067,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses. Losses in prior years have been within management expectations.

### **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 policies. They are subject to insignificant risk of a change in value.

### **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 policies. The primary objective of the investment policies 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 policies and regularly reviews the policies. 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 \$5.1 million (2008 – loss of \$3.2 million).

### **Capital assets**

Assets are capitalized and subject to amortization when they are determined to have a minimum useful life of three years and an acquisition cost of \$10,000 for equipment, furniture and computers, and \$25,000 for computer software and building improvements. 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 an actuarial 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, as determined by an actuary. 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, in accordance with accepted actuarial practice. The discount rate is 4.05% (4.34% – 2008).

### ***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 2.96 % (2008 – 3.67%).

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 provincial government appointed five paralegals to the Paralegal Standing Committee, two of whom are also benchers. The province remunerates the appointed individuals. Elected and ex-officio benchers 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:

	<b>2009</b>	2008
LAWPRO	<b>35,642,000</b>	35,642,000
LibraryCo Inc.	<b>100</b>	100
<b>Total investment in subsidiaries</b>	<b>35,642,100</b>	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)	<b>2009</b>	2008
Investments	<b>434,963</b>	406,385
Other assets	<b>94,723</b>	80,904
<b>Total assets</b>	<b>529,686</b>	487,289
Provision for unpaid claims and adjustment expenses	<b>338,370</b>	302,460
Other liabilities	<b>50,249</b>	50,950
<b>Total liabilities</b>	<b>388,619</b>	353,410
Capital stock issued and paid	<b>5,000</b>	5,000
Contributed surplus	<b>30,645</b>	30,645
Retained earnings	<b>101,940</b>	108,417
Accumulated other comprehensive gain (loss)	<b>3,482</b>	(10,183)
<b>Total shareholder's equity</b>	<b>141,067</b>	133,879
<b>Total liabilities and shareholder's equity</b>	<b>529,686</b>	487,289

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

(\$000's)	<b>2009</b>	2008
Net premiums earned	<b>101,493</b>	85,056
Underwriting expenses	<b>(124,093)</b>	(95,500)
Underwriting loss	<b>(22,600)</b>	(10,444)
Investment income	<b>11,956</b>	20,689
(Loss) income before taxes	<b>(10,644)</b>	10,245
Recovery of (provision for) income taxes	<b>4,167</b>	(3,220)
Net (loss) income	<b>(6,477)</b>	7,025
Other comprehensive income (loss), net of tax	<b>13,665</b>	(8,966)
<b>Comprehensive income (loss)</b>	<b>7,188</b>	(1,941)

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

(\$000's)	<b>2009</b>	2008
Net cash inflow from operating activities	<b>21,553</b>	22,063
Net cash outflow from investing activities	<b>(12,121)</b>	(25,873)
Cash and cash equivalents, beginning of year	<b>3,039</b>	6,849
<b>Cash and cash equivalents, end of year</b>	<b>12,471</b>	3,039

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement renewed in 2009. LAWPRO billed the Society \$95,086,000 (2008 – \$78,812,000) for premiums during the year. LAWPRO paid the Society \$190,000 (2008 – \$179,000) primarily for shared information systems and governance costs. Included in the Society’s liabilities are amounts due to LAWPRO of \$19,124,000 (2008 – \$7,392,000).

**LibraryCo Inc.**

LibraryCo Inc., 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:

	2009	2008
Total assets	<b>1,782,817</b>	1,123,651
Total liabilities	<b>78,593</b>	68,011
Share capital issued and paid	<b>200</b>	200
General fund	<b>818,636</b>	170,052
Reserve fund	<b>885,388</b>	885,388
Total share capital and fund balances	<b>1,704,224</b>	1,055,640
Total liabilities, share capital and fund balances	<b>1,782,817</b>	1,123,651

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

	2009	2008
Total revenue	<b>8,128,290</b>	8,672,751
Expenses		
Head office and administrative expenses	<b>662,996</b>	585,898
Centralized purchases	<b>1,108,711</b>	2,312,503
Law library grants	<b>5,707,999</b>	5,716,362
Total expenses	<b>7,479,706</b>	8,614,763
Net income	<b>648,584</b>	57,988

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

	2009	2008
Net cash inflow (outflow) from operating activities	<b>655,523</b>	(128,169)
Cash and short-term investments, beginning of year	<b>1,094,802</b>	1,222,971
Cash and short-term investments, end of year	<b>1,750,325</b>	1,094,802

The Society administers the operations of LibraryCo under an administrative services agreement signed in 2007. The total amount billed by the Society was \$670,000 (2008 – \$592,000) for administrative services and certain other services and publications. At year end, LibraryCo owed the Society \$60,000 (2008 – \$53,000).

**Law Society Foundation (“LSF”)**

The Law Society Foundation 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 \$14,000 (2008 – \$13,000).

## 5. Portfolio Investments

(\$000's)	2009	2008
Debt securities	73,045	76,595
Canadian equities	8,758	7,244
United States equities	-	4,861
<b>Total portfolio investments</b>	<b>81,803</b>	<b>88,700</b>

## 6. Capital Assets

(\$000's)	2009			2008
	Cost	Accumulated Amortization	Net	Net
Land and buildings	25,395	18,868	6,527	7,077
Building improvements	20,382	9,410	10,972	11,732
Furniture, equipment and computer hardware and software	6,129	5,630	499	683
<b>Total capital assets</b>	<b>51,906</b>	<b>33,908</b>	<b>17,998</b>	<b>19,492</b>

## 7. Provision for Unpaid Grants / Claims

(\$000's)	2009	2008
Provision for unpaid grants – Compensation Fund	13,094	12,270
Provision for unpaid claims – E&O Fund	1,147	2,064
<b>TOTAL</b>	<b>14,241</b>	<b>14,334</b>

### *Provision for Unpaid Grants – Compensation Fund*

(\$000's)	2009	2008
Provision for unpaid grants, beginning of year	12,270	9,835
Change in provision for grants	(222)	1,672
Change in provision for adjustment expenses	995	637
Change in discounting and adverse deviations	51	126
<b>Provision for unpaid grants, end of year</b>	<b>13,094</b>	<b>12,270</b>

### *Provision for Unpaid Claims – E&O Fund*

(\$000's)	2009	2008
Provision for unpaid claims and adjustment expenses, beginning of year	2,064	2,349
Change in net provision for claims and adjustment expenses	(883)	(39)
Net claims, adjustment expenses paid and discounting	(34)	(246)
<b>Provision for unpaid claims and adjustment expenses, end of year</b>	<b>1,147</b>	<b>2,064</b>

## 8. 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 \$1,945,000 (2008 – \$1,796,000).

## 9. 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, 2009, total funds held in trust amount to \$1,964,000 (2008 – \$2,492,000).

## 10. Other Revenues

Included in other revenues is income from the *Ontario Reports*, catering, the Lawyer Referral Service, specialist certification and other miscellaneous revenues.

## 11. 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

of elected and ex-officio benchers during the year was \$475,000 (2008 – \$355,000). The Treasurer’s honorarium for the year was \$103,000 (2008 – \$101,000). The total value of bencher expenses reimbursed was \$577,000 (2008 – \$669,000).

## 12. 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. The Society pension expense in 2009 amounted to \$1,913,000 (2008 – \$1,622,000).

## 13. 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, 2009, the Society’s Fund Balances totalled \$121,062,000 (2008 – \$139,664,000). 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.

## 14. 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:

2010	666,000
2011 – 2014	664,000
2015	691,000
Thereafter	704,295

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.

## 15. 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.

## 16. 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*:

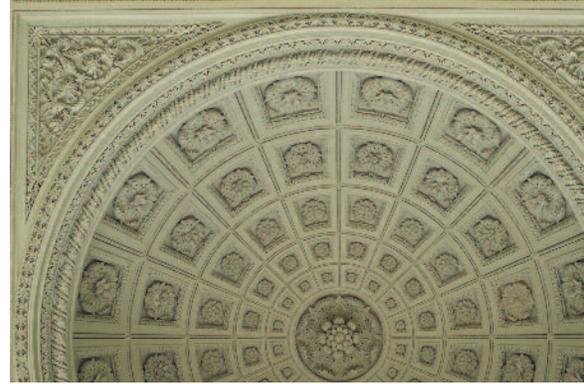
“No action or other proceedings for damages shall be instituted against the Treasurer or any bencher, official of the Society or person appointed in Convocation for any act done in good faith in the performance or intended performance of any duty or in the exercise or in the intended exercise of any 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.

## 17. Subsequent Event

The Society received \$8 million in settlement of an Errors and Omissions Insurance Fund litigation matter, subsequent to year end. Accordingly, this amount was not recorded in these financial statements.

# statements



Osgoode Hall  
130 Queen Street West  
Toronto, Ontario  
M5H 2N6

416-947-3300  
1-800-668-7380

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

