



**The Law Society
of British Columbia**

Financial Statements

December 31, 2021

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Management Discussion and Analysis

The Law Society of British Columbia accounts for its financial activities through two separate funds: the General Fund and the Lawyers Indemnity Fund. Society management has the responsibility for assisting the Benchers in fulfilling the Society's mandate, while ensuring that operating expenditures are closely controlled and that appropriate accounting and internal controls are maintained. The 2021 audited financial statements for the two funds are set out in this report. The statements are presented in accordance with the presentation and disclosure standards of the Chartered Professional Accountants of Canada.

During 2021, in addition to the general oversight by the Benchers, the Finance and Audit Committee assisted the Benchers in ensuring that management and staff properly managed and reported on the financial affairs of the Society. The oversight by the Benchers and the Finance and Audit Committee included:

- Reviewing periodic financial statements of the General and Consolidated Lawyers Indemnity Fund
- Reviewing investment performance as managed by the appointed investment managers
- Reviewing with the Law Society's auditors their approach, scope and audit results
- Reviewing the annual Audit Report prepared by the Law Society auditors
- Recommending the 2022 practice fees and indemnity assessments, and reviewing corresponding budgets
- Reviewing the enterprise risk management plan

General Fund

Overview

Overall, the 2021 results for the General Fund resulted in an operating surplus of \$3.7 million, after the transfer of net assets from the trust assurance program to the Lawyers Indemnity Fund. Revenues were higher than expected, particularly in the areas of practice fees, trust administration fees, and electronic filing revenue. Operating expenses increased over the prior year primarily due to increases in travel, meetings, events and office occupancy costs over 2020. In 2020, these costs were much lower as a result of the Covid-19 pandemic.

Revenues

General Fund revenue was \$37.3 million, \$2.6 million (7.6%) higher than 2020 primarily due to the growth in the number of lawyers, increased trust administration fees and increased electronic filing revenue. During 2021, net growth in the number of full-time equivalent practising lawyers was 3.3% resulting in a total of 13,317 full fee paying equivalent lawyers for the year, compared to 12,893 in 2020. The trust administration fee (TAF) revenue increased 36% due to an increase in the number of transactions arising from an increase in activity in the real estate market. Electronic filing revenue increased 79% over 2020 due to the increased real estate activity, along with the introduction of the

Land Owner Transparency Act (LOTA). The Act includes new electronic filing requirements, resulting in additional electronic filing revenues.

The Lawyers Indemnity Fund contributed \$2.4 million to the General Fund for co-sponsored program costs and for general program and administrative expenses attributable to operations.

Expenses

The 2021 General Fund expenses increased by \$1.5 million (4.6%) to \$33.6 million, compared to \$32.1 million in 2021.

Bencher Governance and Support expenses increased by \$291,000 over 2020 due to an increase in travel and meeting costs with the lifting of some COVID-19 travel restrictions and the resulting increase in in-person events.

Communication and Information Services total costs were \$180,000 more than 2020 due to general wage increases and increased software maintenance costs.

Education and Practice expenses were higher than 2020 by \$476,000, with the implementation of new online learning platform, along with staffing and general wage increases.

General and administration costs increased \$40,000 over 2020 due to general wage increases.

Policy and Legal Services expenses increased \$303,000 over 2020, with increases in external litigation costs.

Regulation operating expenses increased \$133,000 over 2020, primarily due to higher external counsel fees and general wage increases.

Occupancy costs increased \$136,000 from 2020 due to higher property taxes and building maintenance costs.

Net Assets

Overall, the General Fund remains financially sound. As of December 31, 2021, net assets in the General Fund were \$33.7 million. The net assets include \$4.0 million in capital funding for planned capital projects related to the 845 Cambie Street building and workspace improvements for Law Society operations. Pursuant to reserve policy, during the year \$2.3 million of net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage. After this transfer, at December 31, 2021, the net assets include \$1.8 million of trust assurance net assets. The remaining General Fund net assets are \$27.9 million, of which \$13 million is invested in capital assets, mainly the 845 Cambie Street building, and \$15 million is working capital.

Lawyers Indemnity Fund

Overview

The Lawyers Indemnity Fund remains in a strong financial position at the end of 2021. Revenue from annual assessments was slightly higher than 2020 due to additional covered members and the increase in the value of the investment portfolio was higher than the previous year with strong investment returns during 2021.

Revenues

The 2021 indemnity assessment remained at \$1,800 per full-time lawyer, resulting in total revenue of \$17.1 million, compared to \$16.5 million in 2020.

During 2021, the long term investment portfolio earned a return of 12.8 %. All increases in the market value of the investment portfolio have been recognized through the statement of revenue and expenses in accordance with Canadian accounting standards for not-for-profit organizations.

Expenses

In 2021, the Lawyers Indemnity Fund general operating costs, including the \$2.4 million contribution to the General Fund, but excluding claims payments and unallocated loss adjustment expenses (ULAE), were \$8.3 million, compared to \$7.3 million in 2020. The increase is related to the cost of adding cyber coverage to the indemnity program and an increase in investment management fees due to a larger portfolio value and asset mix changes.

The net actuarial provision for settlement of claims for the year was \$6.5 million, a decrease of \$4.9 million from 2020. The 2021 claims provision was lower mainly due to changes to prior years' reserves. The provision for claims liabilities on the balance sheet at the end of 2021 was \$72.9 million, compared to \$76.4 million at the end of 2020.

Net Assets

As of December 31, 2021, LIF net assets were \$142.7 million, which includes \$17.5 million internally restricted for Part B claims, leaving \$125.2 million in unrestricted net assets.

Other Matters

Effective January 1, 2020, Section 30 of the *Legal Profession Act* was amended to convert the “insurance” program to an “indemnification” program. New Section 30.1 provides that the Law Society or any subsidiary (except for a captive insurer) that operates such a program is not an insurer as defined in the *Financial Institutions Act* or the *Insurance Act*, nor are they carrying on insurance business in B.C.

Effective January 1, 2020, the Lawyers Insurance Fund became the Lawyers Indemnity Fund. The LSBC Captive Insurance Company Ltd. was wound up on December 31, 2020, and all of its assets and liabilities have been transferred to the Law Society.

As of January 1, 2021, BCLIA was incorporated to issue the indemnity policies to covered lawyers. As a subsidiary of the Society that is exempt from regulation by the BC Financial Services Authority, BCLIA will assume from the Society the rights and obligations of the Captive under all outstanding professional liability policies, except the Business Innocent Covered Party (BIC) policies.

The Law Society of British Columbia – General Fund

Fund Financial Statements
December 31, 2021



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia – General Fund (the Fund) as at December 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Fund's financial statements comprise:

- the fund statement of financial position as at December 31, 2021;
- the fund statement of changes in net assets for the year then ended;
- the fund statement of revenue and expenses for the year then ended;
- the fund statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 31, 2022

The Law Society of British Columbia – General Fund

Fund Statement of Financial Position

As at December 31, 2021

	2021 \$	2020 \$
Assets		
Current assets		
Cash (note 2)	31,978,828	24,919,747
Unclaimed trust funds (note 2)	2,151,250	2,144,416
Accounts receivable and prepaid expenses (note 3)	2,292,224	1,871,173
Due from Lawyers Indemnity Fund (note 9)	6,170,902	9,015,334
	<u>42,593,204</u>	<u>37,950,670</u>
Non-current assets		
Cambie Street property – net (note 4 (a))	10,916,561	11,735,274
Other property and equipment – net (note 4 (b))	1,540,005	1,296,660
Intangible assets – net (note 4 (c))	485,806	518,908
Long-term loan receivable (note 5)	535,161	451,725
	<u>56,070,737</u>	<u>51,953,237</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	5,430,922	5,436,275
Liability for unclaimed trust funds (note 2)	2,151,250	2,144,416
Current portion of building loan payable (note 8)	100,000	500,000
Deferred revenue (note 2)	14,606,765	13,718,957
Deposits	57,405	55,805
	<u>22,346,342</u>	<u>21,855,453</u>
Building loan payable (notes 8 and 9)	<u>-</u>	<u>100,000</u>
	22,346,342	21,955,453
Net assets		
Unrestricted (note 7)	<u>33,724,395</u>	<u>29,997,784</u>
	<u>56,070,737</u>	<u>51,953,237</u>
Commitments (note 14)		

Approved by



President



Chair of Finance and Audit Committee

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

The Law Society of British Columbia – General Fund

Fund Statement of Changes in Net Assets

For the year ended December 31, 2021

	2021 \$	2020 \$
Net assets – Beginning of year	29,997,784	26,305,864
Net excess of revenue over expenses for the year	<u>3,726,611</u>	<u>3,691,920</u>
Net assets – End of year (note 7)	<u>33,724,395</u>	<u>29,997,784</u>

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

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses

For the year ended December 31, 2021

	2021 \$	2020 \$
Revenue		
Practice fees	25,683,871	25,246,037
Trust administration fees	5,238,051	3,861,523
Enrolment fees	1,775,550	1,753,250
E-filing revenue	1,334,626	745,535
Fines, penalties and recoveries	677,540	405,820
Application fees	814,802	698,950
Investment income (note 9)	304,645	435,564
Other income	423,814	451,251
Rental revenue	1,026,505	1,039,101
	<hr/> 37,279,404	<hr/> 34,637,031
Expenses		
Bencher governance and support	1,083,536	792,357
Communications and publications	572,853	483,299
Information services	1,932,145	1,843,335
Education and practice		
Credentials	956,736	822,638
Member services	841,691	902,279
Membership assistance programs	60,324	65,778
Practice advice	941,962	788,089
Practice standards	422,078	384,526
Professional legal training course and education	2,803,117	2,586,170
General and administrative		
Finance	1,313,139	1,247,656
Amortization of other property and equipment	505,972	521,923
General administration	1,556,651	1,609,234
Human resources	668,282	624,260
Records management and library	280,135	281,327
Policy and legal services		
Policy, ethics and tribunal counsel	2,103,565	2,016,002
External litigation and interventions	549,206	339,300
Unauthorized practice	306,394	301,098
Regulation		
Custodianship costs	1,753,460	1,645,616
Discipline	2,851,525	2,764,687
Professional conduct – intake and investigations	6,424,483	6,398,057
Forensic accounting	692,522	869,320
Trust assurance	2,866,796	2,777,950
Occupancy costs, net of tenant recoveries	2,142,549	2,006,925
	<hr/> 33,629,121	<hr/> 32,071,826
Carried forward		

The Law Society of British Columbia – General Fund

Fund Statement of Revenue and Expenses ...continued

For the year ended December 31, 2021

	2021 \$	2020 \$
Brought forward	33,629,121	32,071,826
Special Compensation Fund		
General and administrative costs	-	58,805
	<u>33,629,121</u>	<u>32,130,631</u>
Costs recovered Lawyers Indemnity Funds		
Co-sponsored program costs	(1,002,286)	(657,991)
Program and administrative costs	(1,374,042)	(1,227,529)
	<u>(2,376,328)</u>	<u>(1,885,520)</u>
	<u>31,252,793</u>	<u>30,245,111</u>
Excess of revenue over expenses before contribution to Lawyers Indemnity Fund	6,026,611	4,391,920
Contribution from Trust Assurance Net Assets to Lawyers Indemnity Fund (note 7)	<u>2,300,000</u>	<u>700,000</u>
Net excess of revenue over expenses for the year	<u>3,726,611</u>	<u>3,691,920</u>

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

The Law Society of British Columbia – General Fund

Fund Statement of Cash Flows

For the year ended December 31, 2021

	2021 \$	2020 \$
Cash provided by (used in)		
Operating activities		
Net excess of revenue over expenses for the year	3,726,611	3,691,920
Items not affecting cash		
Amortization of Cambie Street building and tenant improvements	792,270	951,913
Amortization of other property and equipment	566,046	367,431
Amortization of intangible assets	154,043	154,492
Loss on disposal of other property and equipment	538	111
Contributions to Lawyers Indemnity Fund	2,300,000	700,000
	<hr/> 7,539,508	<hr/> 5,865,867
(Increase) decrease in current assets		
Unclaimed trust funds	(6,834)	70,601
Accounts receivable and prepaid expenses	(421,051)	55,347
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	(5,354)	(1,674,224)
Liability for unclaimed trust funds	6,834	(70,601)
Deferred revenue	887,808	(11,712,410)
Deposits	1,600	(200)
	<hr/> 8,002,511	<hr/> (7,465,620)
Financing activities		
Decrease in building loan payable	(500,000)	(500,000)
Interfund transfers	544,432	(3,633,313)
	<hr/> 44,432	<hr/> (4,133,313)
Investing activities		
Purchase of property and equipment	(783,485)	(901,790)
Purchase of intangible assets	(120,941)	(174,492)
Long-term loan receivable	(83,436)	(86,257)
	<hr/> (987,862)	<hr/> (1,162,539)
Increase (decrease) in cash	7,059,081	(12,761,472)
Cash – Beginning of year	24,919,747	37,681,219
Cash – End of year	<hr/> 31,978,828	<hr/> 24,919,747
Supplementary cash flow information		
Interest paid	<hr/> 2,184	<hr/> 10,410
Interest income received	<hr/> 329,723	<hr/> 456,601

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

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting public interest in the administration of justice by setting and enforcing standards of professional conduct for lawyers. The Society is a not-for-profit organization.

The funds covered in these fund financial statements are for the Society's General Fund and Special Compensation Fund with the following activities:

The General Fund comprises the assets, liabilities, net assets, revenue and expenses of the operations of the Society other than those designated to the statutory Special Compensation Fund and the Lawyers Indemnity Fund. This includes collecting revenues associated with practice fees, trust administration fees, enrolment fees, and various other administrative fees and penalties used to cover the costs of the Society to regulate the legal profession and educate and enforce adherence of its members to act within the rules of professional conduct for lawyers.

The Special Compensation Fund was maintained by the Society pursuant to Section 31 of the Legal Profession Act (the LPA). The Special Compensation Fund claims were recorded net of recoveries from the Special Compensation Fund's insurers when they were approved for payment by the Special Compensation Fund Committee as delegated by the Benchers and the settlement has been accepted by the claimant. The LPA provides that the assets of the Special Compensation Fund are not subject to process of seizure or attachment by creditors of the Society.

Effective from January 1, 2013, the Legal Profession Amendment Act, 2012 repealed Section 31 of the LPA. The legislation was changed pursuant to Section 50 of the Legal Profession Amendment Act, 2012 (SBC 2012, C16), to initiate the transfer of unused reserves that remain within the Special Compensation Fund, after all recoveries are received and expenses and claims are paid, to be used in the Lawyers Indemnity Fund. Additionally, Section 23 of the LPA was amended to remove the requirement that practising lawyers pay the Special Compensation Fund assessment. At December 31, 2020 the Special Compensation Fund was wound up.

Effective from May 1, 2004, Part B to the B.C. Lawyers' Compulsory Professional Liability Indemnification Policy provides defined insurance coverage for dishonest appropriation of money or other property entrusted to and received by insured lawyers in their capacity as barristers and solicitors and in relation to the provision of professional services. Part B (Trust Protection Coverage) is recorded in the Lawyers Indemnity Fund.

The Society's Lawyers Indemnity Fund is presented separately in consolidated fund financial statements, including the Society's wholly owned BC Lawyers' Indemnity Association (BCLIA). The Lawyers Indemnity Fund underwrites the program by which errors and omissions insurance is provided to members of the Society. The Lawyers Indemnity Fund's consolidated fund financial statements provide further detail on the various insurance coverages provided.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

The COVID-19 global pandemic has resulted in measures taken by various governments, including emergency measures to combat the spread of the virus, which has affected economic activity. The Law Society has taken a number of measures to monitor and mitigate the effects of COVID-19, such as implementing safety and health measures, effectively transforming the operations to a virtual workplace, and providing support to lawyers who may be significantly affected by the pandemic through targeted initiatives. At this stage, there has not been a decline in fees or assessment revenues as a result of the pandemic and the Society will continue to monitor this closely.

2 Significant accounting policies

These fund financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund from the Lawyers Indemnity Fund. Recoveries are based on amounts derived either on percentage of use, the proportion of the Lawyers Indemnity Fund's staff compared to the Society's total staff costs, or a set amount.

Cash

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

Claims liabilities

In accordance with the absolute discretionary nature of the Special Compensation Fund arrangements, the claims become a liability only when approved by the Special Compensation Fund Committee and accepted by the claimant.

Deferred capital contributions

Contributions restricted for the purchase of capital assets are deferred and recognized as revenue on the same basis as the capital assets are amortized.

Fair value of financial instruments

The fair values of cash, accounts receivable and accounts payable and accrued liabilities correspond to their carrying values due to their short-term nature.

Intangible assets

Intangible assets comprise computer software. Software is recorded at cost and amortized on a straight-line basis at 10% – 20% per annum.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

Property and equipment

Property and equipment, including leasehold improvements, are recorded at cost less accumulated amortization.

The Society provides for amortization on a straight-line basis as follows:

Buildings	40 years from purchase date
Building – Envelope	7% per annum
Computer hardware	10% - 20% per annum
Furniture and fixtures	10% per annum
Leasehold improvements	10% per annum
Building improvements and equipment	10% per annum
Tenant improvements	over lease period

The Society recognizes a full year's amortization expense in the year of acquisition, with the exception of building improvements and equipment and leasehold improvements which are amortized from their date of completion.

Revenue recognition

The Society follows the deferral method of accounting for practice fees and assessments. Fees and assessments are billed and received in advance on a calendar-year basis. Accordingly, fees and assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year. The Society began billing practice fees in two instalments beginning with the collection of the 2021 practice fees. Revenue will be recognized on a monthly basis as earned. Surplus funds are invested in a high interest savings account.

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

Unclaimed trust funds

The General Fund recognizes unclaimed trust funds as an asset as well as a corresponding liability on the fund statement of financial position. If these funds are claimed, the owner of the trust fund balance is entitled to the principal balance plus interest at prime rate minus 2%. Due to the historically low collection rates on these balances, the General Fund does not accrue for any interest owing on the trust fund amounts held and recognizes income earned from the unclaimed trust fund investments in the fund statement of revenue and expenses. Unclaimed funds outstanding for more than five years are transferred to the Law Foundation of British Columbia.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

Use of estimates

The preparation of fund financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the fund financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from these estimates.

The Society continues to monitor these estimates; however, they have not to date been significantly impacted by the economic uncertainty related to COVID 19.

3 Accounts receivable and prepaid expenses

Accounts receivable are presented net of the allowance for doubtful accounts of \$1,702,515 (2020 – \$1,224,884).

4 Property, equipment and intangible assets

a) 845 Cambie Street property

	2021		
	Cost \$	Accumulated amortization \$	Net \$
Land	4,189,450	-	4,189,450
Buildings and equipment	17,071,416	11,374,076	5,697,340
Leasehold improvements	7,725,118	6,752,647	972,471
Tenant improvements	826,619	769,319	57,300
	29,812,603	18,896,042	10,916,561
	2020		
	Cost \$	Accumulated amortization \$	Net \$
Land	4,189,450	-	4,189,450
Buildings and equipment	16,825,340	10,623,021	6,202,319
Leasehold improvements	7,813,202	6,549,917	1,263,285
Tenant improvements	826,619	746,399	80,220
	29,654,611	17,919,337	11,735,274

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

b) Other property and equipment

	2021		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Furniture and fixtures	3,497,788	2,436,178	1,061,610
Computer hardware	2,001,876	1,527,238	474,638
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	5,548,826	4,008,821	1,540,005

	2020		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Furniture and fixtures	2,970,009	2,259,380	710,629
Computer hardware	1,908,049	1,325,775	582,274
Artwork and collectibles	49,161	45,405	3,756
Law libraries – at nominal value	1	-	1
	4,927,220	3,630,560	1,296,660

c) Intangible assets

	2021		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Computer software	2,380,119	1,894,313	485,806
Website development	110,733	110,733	-
	2,490,852	2,005,046	485,806

	2020		
	Cost	Accumulated	Net
	\$	amortization	\$
		\$	\$
Computer software	2,259,177	1,762,415	496,762
Website development	110,733	88,587	22,146
	2,369,910	1,851,002	518,908

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

5 Long-term loan receivable

In 2018, the Society agreed to participate with other Canadian law societies in a collective loan of \$2 million to the Canadian Legal Information Institute (CanLII), a wholly owned subsidiary of the Federation of Law Societies of Canada (FLSC). The loan is part of the financing for the purchase by CanLII of Lexum, a corporation providing support services to CanLII for the implementation of CanLII's legal information website. The Law Society's participation in this loan was \$276,390 in 2018. Part of the Society's support of this transaction are annual repayable capital payments of \$89,079 in 2019, \$86,257 in 2020 and \$83,435 in to the vendors of Lexum as provided in a Subordination and Commitment Agreement. Amounts advanced under this agreement earn interest at the same rate as the amount advanced under the collective loan. In 2021, the Society's total participation in this loan is \$535,161 (2020 – \$451,725). The loan has a five-year term with an annual interest rate of 4.74%, payable annually. The interest earned in the current year relating to the loan was \$25,078.

6 Accounts payable and accrued liabilities

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

	2021 \$	2020 \$
Advocate	231,339	193,193
Courthouse Libraries BC	2,050,215	1,707,199
Lawyers Assistance Program	477,390	423,184
Pro bono	198,856	191,603
CanLII	259,759	236,493
Federation of Law Societies	208,202	197,519

7 Unrestricted net assets

The General Fund unrestricted net assets include \$3,966,733 (2020 – \$3,693,174), which has been allocated to capital expenditures in accordance with the capital plan.

The General Fund unrestricted net assets also include \$1,842,249 (2020 – \$2,072,034), which has been appropriated for future trust assurance expenses. During the year, \$5,238,051 (2020 – \$3,861,523) in trust administration fee revenue was collected and \$3,167,836 (2020 – \$3,078,990) in trust assurance expenses were incurred.

Pursuant to the reserve policy, \$2,300,000 of the net assets related to trust assurance was transferred to the Lawyers Indemnity Fund for Part B coverage in 2021 (2020 – \$700,000).

The remaining General Fund net assets represent \$12,842,371 (2020 – \$12,950,843) invested in capital assets, and working capital of \$15,073,041 (2020 – \$11,281,734), combining for a total unrestricted net asset amount of \$27,915,412 (2020 – \$24,232,577).

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

	(in 000s)					2021	2020
	Invested in capital \$	Working capital \$	Unrestricted \$	Trust assurance \$	Capital plan \$	Total \$	Total \$
Net assets – Beginning of year	12,951	11,282	24,233	2,072	3,693	29,998	26,247
(Deficiency) excess of revenue over expenses before contribution to Lawyers Indemnity Fund	(1,513)	3,791	2,278	2,070	1,678	6,026	4,451
Contribution to Lawyers Indemnity Fund				(2,300)		(2,300)	(700)
Repayment of building loan payable (note 8)	500	-	500	-	(500)	-	-
Purchase of capital assets	904	-	904	-	(904)	-	-
Net assets – End of year	12,842	15,073	27,915	1,842	3,967	33,724	29,998

8 Building loan payable

In 1992, the Benchers authorized the borrowing of monies from the Lawyers Indemnity Fund to fund the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan is secured by the buildings, has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Lawyers Indemnity Fund investment portfolio. Interest paid on the building loan is disclosed in note 9. The outstanding building loan balance at December 31, 2021 is \$100,000 (2020 – \$600,000). It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2021, principal of \$500,000 (2020 – \$500,000) was repaid. The loan will be paid off in total by 2022.

	2021 %	2020 %
Weighted average rate of interest	1.88	1.36

9 Interfund transactions

The operations of the General, Lawyers Indemnity and Special Compensation Funds are controlled by the management of the Society. Balances between the funds generally arise from transactions of an operating nature and are recorded at the exchange amount at the dates of the transactions. Surplus funds are kept in the General Fund bank accounts or invested in a high interest savings account.

Amounts due to and from the Lawyers Indemnity Fund are due on demand and have no fixed terms of repayment. The Lawyers Indemnity Fund has authorized a loan facility of up to \$1 million, of which \$nil has been drawn down at December 31, 2021 (2020 – \$nil), to the General Fund to fund capital expenditures in accordance with the capital plan.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

Monthly interest on the Lawyers Indemnity Fund's net loan position with the General and Special Compensation Funds is earned at the rate equal to the stated monthly bond yield to maturity earned on the Lawyers Indemnity Fund investment portfolio. The average bond yield for 2021 was 1.88% (2020 – 1.36%). The General Fund's net loan position includes the General Fund's building loan and other operating balances with the Lawyers Indemnity Fund. The net loan position fluctuates during the year as amounts are transferred between the General Fund, the Special Compensation Fund and the Lawyers Indemnity Fund to finance ongoing operations.

During 2021, interest of \$2,184 was paid on the building loan and interest revenue of \$190,071 was received from General Fund cash balances held by the Lawyers Indemnity Fund for a net interest income of \$187,887.

During 2020, interest of \$10,410 was paid on the building loan and interest revenue of \$202,807 was received from General Fund cash balances held by the Lawyers Indemnity Fund and \$308 was received from Special Compensation Fund cash balances held by the Lawyers Indemnity Fund for a net interest income of \$192,705.

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

10 Special Compensation Fund claims and program changes

Outstanding claims

Pursuant to section 31(6) of the Legal Profession Act, the payment of Special Compensation Fund claims is at the discretion of the Special Compensation Fund Committee as delegated by the Benchers. As at December 31, 2021, there were no remaining claims for which statutory declarations had been received. All claims for which statutory declarations were received have been reviewed by the Special Compensation Fund Committee, and accordingly, at December 31, 2020, the Special Compensation Fund was wound up.

For claims reported prior to May 1, 2004, the insurance bond provided that total claims attributable to the period in excess of \$25,000,000 were 100% reimbursed by a commercial insurer up to a maximum of \$15,000,000 for claims against one lawyer and in total. As set out in note 1, claims reported after May 1, 2004 are subject to Part B coverage by the Lawyers Indemnity Fund.

11 Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2021, expenses of \$11,716 (2020 – \$nil) recorded at the carrying amount were incurred by the General Fund during the normal course of business with these law firms.

12 Capital management

The Society defines its capital as the amounts included in its unrestricted net assets. Its objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to fulfill its objectives and meet its requirements.

The Law Society of British Columbia – General Fund

Notes to Fund Financial Statements

December 31, 2021

13 Financial instruments

The General Funds' financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities.

The significant financial risks to which the Society is exposed are credit risk and liquidity risk.

a) Credit risk

Cash and accounts receivable expose the Fund to credit risk.

The maximum exposure to credit risk arising from the above-noted items is \$33,681,343 (2020 – \$26,169,122). Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

b) The Society's assets mainly consist of cash and therefore are not subject to any heightened credit risk as a result of COVID-19.

c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. Financial instruments held by the Society are limited to cash, accounts receivable and accounts payable and accrued liabilities and, therefore, bear no significant liquidity risk.

14 Commitments

The Society is committed to payments under certain operating leases relating to vehicle costs. Future minimum lease payments required in each of the next three fiscal years are:

	\$
2022	5,304
2023	2,652
2024	-
	<hr/>
Total future minimum lease payments	<u>7,956</u>

For the year ended December 31, 2021, an amount of \$5,304 representing payments under operating leases was expensed (2020 – \$5,304).

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

Consolidated Fund Financial Statements
December 31, 2021



Independent auditor's report

To the Members of The Law Society of British Columbia

Our opinion

In our opinion, the accompanying consolidated fund financial statements present fairly, in all material respects, the financial position of The Law Society of British Columbia - Lawyers Indemnity Fund and its subsidiary (together, the Fund) as at December 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Fund's consolidated fund financial statements comprise:

- the consolidated fund statement of financial position as at December 31, 2021;
- the consolidated fund statement of revenue and expenses for the year then ended;
- the consolidated fund statement of changes in net assets for the year then ended;
- the consolidated fund statement of cash flows for the year then ended; and
- the notes to the consolidated fund financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated fund financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of



not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated fund financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated fund financial statements, including the disclosures, and whether the consolidated fund financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated fund financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 31, 2022

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Financial Position

As at December 31, 2021

	2021 \$	2020 \$
Assets		
Cash	836,534	3,029,869
Accounts receivable – net of allowance (note 3)	338,460	439,339
Prepaid expenses	549,393	56,434
Short-term investments (note 5)	516,963	515,438
Member deductibles	1,513,163	1,270,504
General Fund building loan (note 7)	100,000	600,000
Investments (note 6)	<u>241,159,753</u>	<u>213,187,539</u>
	<u>245,014,266</u>	<u>219,099,123</u>
Liabilities		
Accounts payable and accrued liabilities (notes 4 and 8)	2,151,511	1,981,060
Deferred revenue	8,646,759	8,371,389
Due to General Fund (note 10)	6,170,902	9,015,334
Provision for claims (note 9)	72,917,766	76,375,620
Provision for ULAE (note 9)	<u>12,399,000</u>	<u>12,222,000</u>
	<u>102,285,938</u>	<u>107,965,403</u>
Net assets		
Unrestricted net assets	125,228,328	93,633,720
Internally restricted net assets (note 11)	<u>17,500,000</u>	<u>17,500,000</u>
	<u>142,728,328</u>	<u>111,133,720</u>
	<u>245,014,266</u>	<u>219,099,123</u>

Commitments (note 10)

Approved by



President



Chair of Finance and Audit Committee

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Revenue and Expenses

For the year ended December 31, 2021

	2021 \$	2020 \$
Revenue		
Annual assessments	17,051,823	16,518,443
Investment income (note 6)	6,609,753	6,742,564
Other income	85,200	44,149
	<u>23,746,776</u>	<u>23,305,156</u>
Indemnity expenses		
Actuary, consultant and investment manager fees	1,119,439	1,043,028
Allocated office rent from General Fund	323,505	323,829
Contribution to program and administrative costs of General Fund	1,374,042	1,228,752
Insurance	1,067,773	379,933
Office	276,846	484,463
Premium taxes	-	11,084
Provision for settlement of claims (note 9)	6,487,841	11,369,370
Provision for ULAE (note 9)	177,000	362,000
Salaries, wages and benefits	3,149,622	3,073,329
	<u>13,976,068</u>	<u>18,275,788</u>
Loss prevention expenses		
Contribution to co-sponsored program costs of General Fund	1,002,286	657,991
	<u>14,978,354</u>	<u>18,933,779</u>
Excess of revenue over expenses before the following	8,768,422	4,371,377
Fair value increase in investments (note 6)	20,525,641	8,146,950
	29,294,063	12,518,327
(Recovery of) provision for income taxes	(545)	5,411
	29,294,608	12,512,916
Contribution from Trust Assurance Net Assets in General Fund (note 10)	2,300,000	700,000
Excess of revenue over expenses for the year	<u>31,594,608</u>	<u>13,212,916</u>

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Changes in Net Assets

For the year ended December 31, 2021

			2021	2020
	Unrestricted \$	Internally restricted \$	Total \$	Total \$
Net assets – Beginning of year	93,633,720	17,500,000	111,133,720	97,920,804
Excess of revenue over expenses for the year	31,594,608	-	31,594,608	13,212,916
Net assets – End of year	125,228,328	17,500,000	142,728,328	111,133,720

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Consolidated Fund Statement of Cash Flows

For the year ended December 31, 2021

	2021 \$	2020 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	31,594,608	13,212,916
Items not affecting cash		
Unrealized gain on investments	(11,509,114)	(4,215,946)
Realized gain on disposal of investments	(9,016,527)	(3,931,005)
Pooled distributions from investments	(6,783,814)	(6,858,317)
Contribution from General and Special Funds	2,300,000	700,000
	<u>6,585,153</u>	<u>(1,092,352)</u>
(Increase) decrease in assets		
Accounts receivable	100,879	(126,969)
Prepaid expenses	(492,959)	(10,489)
Short-term investments	(1,525)	7,031,242
Corporate shares held	(1,003,390)	-
Member deductibles	(242,659)	172,260
(Decrease) increase in liabilities		
Accounts payable and accrued liabilities	170,385	(160,859)
Deferred revenue	275,370	227,686
Provision for claims	(3,457,854)	(133,442)
Provision for ULAE	177,000	362,000
	<u>2,110,400</u>	<u>6,269,077</u>
Investing activities		
Decrease in General Fund building loan	500,000	500,000
Purchase of investments	(22,812,788)	(90,663,440)
Proceeds from disposal of investments	23,153,421	83,763,650
	<u>840,633</u>	<u>(6,399,790)</u>
Financing activities		
Interfund transfers (note 10)	(5,144,368)	2,233,313
	<u>(2,193,335)</u>	<u>2,102,600</u>
(Decrease) increase in cash	(2,193,335)	2,102,600
Cash – Beginning of year	3,029,869	927,269
Cash – End of year	<u>836,534</u>	<u>3,029,869</u>
Supplementary cash flow information		
Interest paid	185,703	203,115
Interest income received	15,914	44,750

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

1 Nature of operations

The Law Society of British Columbia (the Society) regulates the legal profession in British Columbia, protecting public interest in the administration of justice by setting and enforcing standards of professional conduct for lawyers.

The Society's fund covered in these consolidated fund financial statements is for the Lawyers Indemnity Fund (the Fund) and the Society's wholly owned subsidiary, BC Lawyers Indemnity Association (BCLIA) that together comprise the Society's indemnification program. Effective January 1, 1990, the Fund underwrites the program by which professional liability indemnity is provided to eligible members of the Society.

The Society's General Fund and Special Compensation Fund are presented in separate fund financials.

The Fund is maintained by the Society pursuant to Section 30 of the Legal Profession Act. The LSBC Captive Insurance Company Ltd. (Captive) was considered assessable for income tax under current legislation, and was wound up at December 31, 2020. BCLIA is not subject to regulation by the BC Financial Services Authority (BCFSA).

The COVID-19 global pandemic resulted in measures taken by various governments, including emergency measures, to combat the spread of the virus, which has affected economic activity. The Law Society has taken a number of steps to monitor and mitigate the effects of COVID-19, such as implementing safety and health requirements, effectively transforming the operations to a virtual workplace, and providing support to lawyers who may be significantly affected by the pandemic through targeted initiatives. At this stage, there has not been a decline in fees or assessment revenue as a result of the pandemic; this will be monitored closely.

Part A

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

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

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

For the 2021 and 2020 policy years, the Society and BCLIA have obtained stop-loss reinsurance in the amount of \$12 million to cover aggregate payments over \$25 million for Parts A and C of the Policy. This limit is co-indemnified 80/20 with the reinsurer paying 80% of losses over \$25 million to a maximum of \$12 million and the Fund paying 20%.

Part B

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

For the 2021 and 2020 policy years, there is a \$300,000 per claim limit and a \$17.5 million profession-wide annual aggregate limit. There is no deductible payable by the covered lawyer. The Society and BCLIA have obtained insurance in the amount of \$5 million to cover a portion of the annual aggregate limit. This insurance is subject to a \$3 million group deductible and is co-insured 80/20 with the insurer paying 80% of losses over \$3 million to a maximum of \$5 million, and the Fund paying 20%.

Part C

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

For the 2021 and 2020 policy years, there is a limit of \$500,000 per claim, and per lawyer and firm annually, a profession-wide annual aggregate of \$2 million, and a deductible of 35% of the client trust fund shortage (reduced by the amount of any overdraft paid). Coverage, for relying on fraudulent certified cheques, is contingent upon compliance with the Society's client identification and verification rules.

2 Significant accounting policies

These consolidated fund financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) as issued by the Canadian Accounting Standards Board.

Basis of consolidation

These consolidated fund financial statements include the accounts of the Fund and BCLIA.

Allocated administrative expenses

Administrative expenses are recovered by the General Fund of the Society from the Fund. Recoveries are based on amounts derived either on percentage of use or the proportion of the Fund's staff compared to the Society's total staff cost.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

Cash

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

Fair value of financial instruments

The fair values of cash, accounts receivable, short-term investments and accounts payable and accrued liabilities correspond to their carrying values due to their short-term nature.

The fair values of the provision for claims correspond to their carrying values because they are discounted.

The interfund balances including the building loan receivable and other interfund transactions are recorded at their carrying amounts which approximate their exchange amounts.

Short-term investments

Short-term investments consist of pooled money market funds, whose investments have original maturities of less than 90 days. The carrying amount approximates the fair value at the reporting date due to their short-term maturities.

Investments

The Fund's investments consist of units in pooled equity, available for sale equities, bond pooled funds, real estate and mortgage funds and are initially and subsequently measured at fair value. Changes in fair value are recognized in the consolidated fund statement of revenue and expenses in the year incurred. Transaction costs that are directly attributable to the acquisition of these investments are recognized in the consolidated fund statement of revenue and expenses in the year incurred.

Investment income

Investment income and pooled fund distributions are recorded on an accrual basis. Dividends are recorded on the date of record. Gains and losses realized on the disposal of investments are taken into revenue on the date of disposal.

Provision for claims

The provision for claims and unallocated loss adjustment expenses (ULAE) represents an estimate for all external costs of investigating and settling claims and potential claims reported prior to the date of the consolidated fund statement of financial position. The provision is adjusted as additional information on the estimated amounts becomes known during the course of claims settlement. All changes in estimates are expensed in the current period. The provision for unpaid claims is established according to accepted actuarial practice in Canada. It is carried on a discounted basis and therefore reflects the time value of money. To recognize the uncertainty in establishing best estimates, the Fund includes a provision for adverse deviations (PFAD).

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

Revenue recognition

The Fund follows the deferral method of accounting for annual assessments. Assessments are billed and received in advance on a calendar-year basis. Accordingly, assessments for the next fiscal year received prior to December 31 have been recorded as deferred revenue for financial reporting purposes and will be recognized as revenue in the next calendar year. The Society began billing assessments in two instalments beginning with the collection of the 2021 assessments.

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

Use of estimates

The preparation of financial statements in conformity with ASNPO requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated fund financial statements and revenues and expenses for the period reported.

The Society continues to monitor these estimates; however, they have not to date been significantly impacted by the economic uncertainty related to COVID 19.

The determination of the provision for claims and ULAE involves significant estimation. Actual results could differ from those estimates and the differences could be material.

Financial instruments

The Fund's financial instruments consist of cash, accounts receivable, short-term investments, investments and accounts payable and accrued liabilities.

The significant financial risks to which the Fund is exposed are credit risk, market risk, price risk and liquidity risk.

Credit risk

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

The maximum exposure to credit risk arising from the above-noted items is \$142,097,295 (2020 – \$119,144,897).

Credit risk arises from the possibility that a counterparty to an instrument fails to meet its obligations.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

The cash deposits are held only with Schedule I banks. The accounts receivable balances are spread across the broad membership base with no significant exposure to any one individual. The guidelines of the Society's statement of investment policies and procedures (SIPP) mitigate credit risk by ensuring the investments in the bond pooled funds have an adequate minimum credit rating and well-diversified portfolios.

Market risk

Market risk is the potential for loss to the Fund from changes in the value of its financial instruments due to changes in interest rates, foreign exchange rates or equity prices.

The Fund manages market risk by diversifying investments within the various asset classes and investing in pooled funds as set out in the Society's SIPP.

Price risk

Price risk is the risk that the fair value of the Society's investments will fluctuate due to changes in the market prices, whether these changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. It arises primarily on pooled equity, bond, real estate and mortgage fund investments.

To manage price risk, the Society has guidelines on the diversification and weighting of investments within pooled funds that are set and monitored against the Society's SIPP.

As at December 31, 2021, if pooled fund prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately \$24.0 million (2020 – \$21.3 million).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet all cash outflow requirements. As at December 31, 2021, the sum of the Fund's cash, short-term investments and pooled fund investments, at fair value, which are available to settle the liabilities of the Society as they come due, exceeded the sum of the liabilities by \$140 million, or 137% (2020 – \$108 million, or 99%).

3 Accounts receivable

	2021 \$	2020 \$
Member deductibles	687,346	743,296
Allowance for doubtful accounts	(455,206)	(422,256)
GST/HST/PST receivable	106,320	118,299
	<hr/>	<hr/>
	338,460	439,339
	<hr/>	<hr/>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

4 Government remittances

The following government remittances are included in accounts payable:

	2021 \$	2020 \$
Ministry of Finance – premium tax	-	1,241

5 Short-term investments

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

	2021 \$	2020 \$
Money market funds	516,963	515,438

6 Investments

	2021 \$	2020 \$
Investments – at fair value	241,159,753	213,187,539

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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	2021			
	Carrying cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	\$	\$	\$	\$
Bonds				
Pooled Funds	53,079,370	-	2,231,002	50,848,368
Equities				
Canadian Pooled Funds	20,191,344	13,229,357	-	33,420,701
International Pooled Funds	31,371,087	37,473,628	-	68,844,715
Corporate Shares held	1,003,390	-	-	1,003,390
	<u>52,565,821</u>	<u>50,702,985</u>	-	<u>103,268,806</u>
Real Estate, Mortgage and Infrastructure				
Real Estate Fund	14,521,175	7,298,952	-	21,820,127
Mortgage Fund	42,480,873	198,709	-	42,679,582
Infrastructure	21,796,436	746,434	-	22,542,870
	<u>78,798,484</u>	<u>8,244,095</u>	-	<u>87,042,579</u>
	<u>184,443,675</u>	<u>58,947,080</u>	<u>2,231,002</u>	<u>241,159,753</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

	2020			
	Carrying cost \$	Gross unrealized gains \$	Gross unrealized losses \$	Estimated fair value \$
Bonds				
Pooled Funds	52,308,669	549,970	-	52,858,639
Equities				
Canadian Pooled Funds	22,830,786	10,145,055	-	32,975,841
International Pooled Funds	37,336,707	29,027,437	-	66,364,144
	60,167,493	39,172,492	-	99,339,985
Real Estate and Mortgage				
Real Estate Fund	14,521,175	5,041,804	-	19,562,979
Mortgage Fund	40,983,238	442,698	-	41,425,936
	55,504,413	5,484,502	-	60,988,915
	167,980,575	45,206,964	-	213,187,539

The effective yield on the bonds, mortgages and equities portion of the investment portfolio was 2.21% (2020 – 2.00%).

Investment risk management

The Society has adopted policies that establish the guidelines for all investment activities. These guidelines apply to the investment funds controlled by the Fund.

The Society's overall investment philosophy is to maximize the long-term real rate of return subject to an acceptable degree of risk.

The Society's long-term funding requirements and relatively low level of liquidity dictate a portfolio with a mix of fixed income, equities and infrastructure, as well as real estate and mortgages. The Society invests in bonds, equities, infrastructure, real estate and mortgages through pooled funds.

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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Net investment income

	2021 \$	2020 \$
Interest on cash	13,729	34,340
Pooled distributions	6,783,910	6,900,929
Net interfund loan interest expense (note 10)	(187,886)	(192,705)
	<u>6,609,753</u>	<u>6,742,564</u>

Fair value changes in investments

	2021 \$	2020 \$
Realized gain on disposal of investments	9,016,527	3,931,005
Unrealized gain on investments measured at fair value	11,509,114	4,215,945
	<u>20,525,641</u>	<u>8,146,950</u>

7 General Fund building loan

In 1992, the Benchers authorized the lending of monies from the Fund to support the capital development of the Society's buildings at 845 Cambie Street, Vancouver, BC. The loan has no fixed repayment terms and bears interest calculated monthly at a rate equal to the stated monthly bond yield to maturity earned on the Fund's investment portfolio. It is the intention of the Benchers to require the General Fund to repay a minimum of \$500,000 of the principal each year. During 2021, principal of \$500,000 (2020 – \$500,000) was repaid.

	2021 %	2020 %
Weighted average rate of return	<u>1.88</u>	<u>1.36</u>

8 Accounts payable and accrued liabilities

	2021 \$	2020 \$
Trade payables	1,555,058	1,664,427
Accrued trade expenses	596,453	303,586
Premium taxes payable	-	11,084
Provincial sales taxes payable	-	1,241
Income taxes payable	-	722
	<u>2,151,511</u>	<u>1,981,060</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

December 31, 2021

9 Provision for claims and unallocated loss adjustment expenses (ULAE)

The changes in unpaid claims recorded in the consolidated fund statement of financial position are as follows:

	2021 \$	2020 \$
Part A Indemnity Coverage		
Provision for claims – Beginning of year	75,211,258	75,174,017
Provision for losses and expenses for claims reported in the current year	18,571,141	19,382,000
Decrease in estimated losses and expenses for losses reported in prior years	(11,806,141)	(8,364,859)
	<u>81,976,258</u>	<u>86,191,158</u>
Provision for claims liability		
(Subtract) add:		
Payments on claims reported in the current year	(965,972)	(832,332)
Payments on claims reported in prior years	(9,782,526)	(10,144,993)
Recoveries on claims	953,071	61,895
Change in due from members	256,774	(64,470)
	<u>(9,538,653)</u>	<u>(10,979,900)</u>
Claim payments – net of recoveries		
Part A Provision for claims – End of year	<u>72,437,605</u>	<u>75,211,258</u>
Part B Indemnity Coverage		
Unpaid claims – Beginning of year	455,169	319,490
Provision for losses and expenses for claims	211,550	355,034
	<u>666,719</u>	<u>674,524</u>
(Subtract) add:		
Payments on claims	(390,757)	(255,443)
Recoveries on claims	12,895	36,088
	<u>(377,862)</u>	<u>(219,355)</u>
Claim payments – net of recoveries		
Part B Provision for claims – End of year	<u>288,857</u>	<u>455,169</u>
Part C Indemnity Coverage		
Provision for claims – Beginning of year	709,193	1,015,554
Provision for losses and expenses for claims reported in the current year	(488,709)	(2,805)
	<u>220,484</u>	<u>1,012,749</u>
(Subtract) add:		
Payments on claims	(15,065)	(195,766)
Change in due from members	(14,115)	(107,790)
	<u>(29,180)</u>	<u>(303,556)</u>
Part C Provision for claims – End of Year	<u>191,304</u>	<u>709,193</u>
Total provision for Parts A, B and C Indemnity Coverage	<u>72,917,766</u>	<u>76,375,620</u>

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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The determination of the provision for unpaid claims and adjustment expenses requires the estimation of two major variables or quanta, being development of claims and the effect of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in severity of claims from historical trends, the timing of claims payments and future rates of investment return. The estimates are principally based on the Fund's historical experience. Methods of estimation have been used that the Society believes produce reasonable results given current information.

The provision for ULAE is an actuarially determined estimate of the Fund's future operational costs relating to the administration of claims and potential claims reported up to the consolidated fund statement of financial position date.

The Fund discounts its best estimate of claims provisions at a rate of interest of 1.91% (2020 – 1.84%). The Fund determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

A 1% increase in the discount rate will have a favourable impact on the discounted claims liability of \$2.490 million (2020 – \$2.589 million) and a 1% decrease in the discount rate will have an unfavourable impact on the discounted claims liability of \$2.675 million (2020 – \$2.738 million).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial estimates are adequate to pay future claims liabilities, the Fund includes a PFAD in some assumptions relating to claims development and future investment income. The PFAD is selected based on guidance from the Canadian Institute of Actuaries.

The effects of discounting and the application of PFAD, net of members' share of provision for claims, are as follows (in thousands of dollars):

	2021 \$	2020 \$
Undiscounted	75,914	78,996
Effect of present value	(4,395)	(4,333)
PFAD	12,285	12,665
	<hr/> 83,804	<hr/> 87,328

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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

A review of the historical development of the Fund's insurance estimates provides a measure of the Fund's ability to estimate the ultimate value of claims. The top half of the following tables illustrates how the Fund's estimate of total undiscounted claims costs for each year has changed at successive year-ends. The bottom half of the tables reconciles the cumulative claims to the amount appearing in the consolidated fund statement of financial position.

Part A indemnity claims (in thousands of dollars)

Claims year	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	13,390	15,230	12,690	15,090	16,720	15,720	19,767	18,522	17,877	16,896	
One year later	13,080	15,100	12,390	16,590	15,440	15,791	19,219	17,580	17,353		
Two years later	11,970	17,780	12,240	15,210	15,956	16,005	18,802	17,062			
Three years later	10,690	20,300	11,760	13,153	14,548	14,807	15,664				
Four years later	10,490	20,460	12,256	12,775	13,875	13,387					
Five years later	10,100	18,983	11,862	10,385	12,761						
Six years later	9,571	18,087	11,062	10,266							
Seven years later	8,870	17,283	10,271								
Eight years later	8,765	17,071									
Nine years later	8,758										
Current estimate of cumulative claims	8,758	17,071	10,271	10,266	12,761	13,387	15,664	17,062	17,353	16,896	139,489
Cumulative payments to date	(8,294)	(16,450)	(8,783)	(8,022)	(10,378)	(7,109)	(8,547)	(5,447)	(4,026)	(917)	(77,973)
Undiscounted unpaid liability	464	621	1,488	2,244	2,383	6,278	7,117	11,615	13,327	15,979	61,516
Undiscounted unpaid liability in respect of 2011 and prior years											2,770
Undiscounted unallocated loss adjustment expense reserve											11,156
Total undiscounted unpaid claims liability											75,442
Discounting adjustment (includes claim PFAD)											7,855
Total discounted unpaid claims liability											83,297

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Notes to Consolidated Fund Financial Statements

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Part B indemnity claims (in thousands of dollars)

Claims year	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	Total \$
Estimate of undiscounted ultimate claims costs											
At end of claims year	18	53	562	41	274	1,588	135	152	93	196	
One year later	13	82	500	184	134	1,764	126	51	84		
Two years later	12	100	421	180	62	1,696	178	49			
Three years later	13	115	372	157	65	2,039	166				
Four years later	8	108	205	120	70	2,043					
Five years later	8	100	185	101	65						
Six years later	20	100	199	107							
Seven years later	14	100	201								
Eight years later	14	100									
Nine years later	6										
Current estimate of cumulative claims	6	100	201	107	65	2,043	166	49	84	196	3,017
Cumulative payments to date	(6)	(100)	(200)	(93)	(65)	(2,043)	(133)	(49)	(5)	(65)	(2,759)
Undiscounted unpaid liability	-	-	1	14	-	-	33	-	79	131	258
Undiscounted unpaid liability in respect of 2011 and prior years											5
Undiscounted unallocated loss adjustment expense reserve											45
Total undiscounted unpaid claims liability											308
Discounting adjustment (includes claim PFAD)											30
Total discounted unpaid claims liability											338

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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Part C indemnity claims (in thousands of dollars)

Claims year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Estimate of undiscounted ultimate claims costs											
At end of claims year	-	-	-	-	-	-	65	650	91	56	
One year later	-	-	-	-	-	423	65	723	91		
Two years later	-	-	-	-	-	923	65	692			
Three years later	-	-	-	-	-	923	65				
Four years later	-	-	-	-	-	923					
Five years later	-	-	-	-	-						
Six years later	-	-	-	-	-						
Seven years later	-	-	-	-	-						
Eight years later	-	-	-	-	-						
Nine years later	-	-	-	-	-						
Current estimate of cumulative claims	-	-	-	-	-	923	65	692	91	56	1,827
Cumulative payments to date	-	-	-	-	-	(923)	(65)	(692)	-	(14)	(1,694)
Undiscounted unpaid liability	-	-	-	-	-	-	-	-	91	42	133
Undiscounted unpaid liability in respect of 2010 and prior years											-
Undiscounted unallocated loss adjustment expense reserve											31
Total undiscounted unpaid claims liability											164
Discounting adjustment (includes claim PFAD)											5
Total discounted unpaid claims liability											169

The expected maturity of the unpaid claims provision is analyzed below (undiscounted and gross of reinsurance):

(in thousands of dollars)	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
	\$	\$	\$	\$	\$	\$	\$
December 31, 2021	19,634	15,416	11,685	8,027	5,927	15,225	75,914
December 31, 2020	20,540	16,023	12,058	8,591	5,931	15,853	78,996

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Notes to Consolidated Fund Financial Statements

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Role of the actuary

With respect to preparation of these consolidated fund financial statements, the actuary is required to carry out a valuation of the Fund's policy liabilities and to provide an opinion regarding their appropriateness as at the date of the consolidated fund statement of financial position. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation and associated regulations. The scope of the valuation encompasses the policy liabilities, which consist of a provision for unpaid claims and adjustment expenses. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the indemnity policies.

The valuation is based on projections for settlement of reported claims and claim adjustment expenses. It is certain that actual claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

The actuary relies on data and related information prepared by the Fund. The actuary also analyzes the Fund's assets for its ability to support the amount of policy liabilities.

10 Interfund transactions

The operations of the Fund and the General Fund are administered by the management of the Society. Balances between the funds arise from transactions of an operating nature and are recorded at exchange amounts at the dates of the transactions. Amounts due to and from the General Fund are due on demand and have no fixed terms of repayment. The Fund has authorized a loan facility of up to \$1 million to the General Fund to fund capital expenditures in accordance with the 10-year capital plan.

Pursuant to reserve policy, \$2.3 million of the net assets related to trust assurance was transferred during 2021 (2020 – \$0.70 million).

Monthly interest on the Fund's net loan position with the General Fund is paid to the Fund at a rate equal to the stated monthly bond yield to maturity earned on the Fund's investment portfolio. The average bond yield for 2021 was 1.88% (2020 – 1.36%). The Fund's net loan position as at December 31, 2021 was \$6.1 million (2020 – \$9.3 million) which includes the General Fund building loan and other operating balances with the General Fund. This net loan position fluctuates during the year as amounts are transferred between the General Fund and the Fund to finance ongoing operations.

During the year ended December 31, 2021, interest revenue of \$2,184 (2020 – \$10,410) was received on the General Fund building loan, interest of \$190,071 (2020 – \$202,807) was paid on General Fund cash balances held by the Fund.

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

The Law Society of British Columbia – Lawyers Indemnity Fund

Notes to Consolidated Fund Financial Statements

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11 Internally restricted net assets

The Benchers have allocated one annual, profession-wide, policy limit of \$17.5 million (2020 – \$17.5 million) of the net assets to Part B coverage for dishonest appropriation of trust funds or property.

12 Regulatory requirements and capital management

Under regulation of the Insurance (Captive Company) Act of B.C., the Captive was required to maintain a minimum of \$200,000 in shareholder's equity and \$100,000 in reserves. In 2020, BCFSa was informed of the intention to wind up the Captive, and at the time of wind up on December 31, 2020, the Captive was no longer subject to regulatory requirements.

As of January 1, 2021, BCLIA was incorporated to issue the indemnity policies to covered lawyers and is exempt from regulation by the BCFSa. BCLIA has assumed from the Society the rights and obligations of the Captive under all outstanding professional liability policies, except the Business Innocent Covered Party policies.

13 Related parties

The elected Benchers include members drawn from law firms across the province. These law firms may at times be engaged by the Society in the normal course of business. During the year ended December 31, 2021, expenses of \$229,723 (2020 – \$146,602) were incurred by the Fund with these law firms.