



Law Society
of Ontario

Barreau
de l'Ontario

Tab 2

Audit & Finance Committee

Report to Convocation

April 28, 2022

Committee Members:

Joseph Groia (Chair)
Lubomir Poliacik (Vice-Chair)
Catherine Banning
Cathy Corsetti
Seymour Epstein
Gary Graham
Philip Horgan
Jacqueline Horvat
Michelle Lomazzo
C. Scott Marshall
Clare Sellers
Sidney Troister

Authored By:

Finance
Brenda Albuquerque-Boutilier
Executive Director, Finance & CFO
416-947-3436

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FOR DECISION

Law Society of Ontario

Annual Financial Statements

for the year ended December 31, 2021

Motion:

That Convocation approve the audited annual financial statements for the Law Society of Ontario for the financial year ended December 31, 2021, including the net inter-fund transfers listed in Note 14, which are as follows:

- **\$1,839,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;**
- **\$70,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2021 budget to fund the Repayable Allowance Program in the Licensing Process;**
- **\$28,000 from the General Funds to the Special Projects Fund to fund the next bench election;**
- **\$19,000 from the Special Projects Funds to the Capital Allocation Fund to fund further enhancements to the Human Resources Information System; and**
- **\$9,000 from the Special Projects Fund to the General Fund to fund updates to the facilities condition assessment and maintenance of the Society's grounds.**

The financial statements are accompanied by an unmodified opinion from the auditor. Michael Hawtin, Partner Assurance, from PricewaterhouseCoopers LLP will be in attendance.

The financial statements present the financial position and operations of the Law Society and include the General Fund (or operating fund) and a number of special purpose or restricted funds. The restricted funds are described in the financial statements and are:

- The Compensation Fund, restricted by the Law Society Act;
- The Errors & Omissions Insurance Fund (E&O Fund), the Capital Allocation Fund, the Invested in Capital & Intangible Assets Fund, the County Libraries

Fund, the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Fund, all restricted by policies of Convocation.

Inter-fund Transfers

The net inter-fund transfers are listed in Note 14 to the Annual Financial Statements and are routine in nature. Generally, inter-fund transfers relate to the capitalization of capital and intangible assets at year-end or the transfer of budgeted funds to appropriate Restricted Funds based on the criteria of the Fund. As these Funds are restricted by Convocation, the transfers are requested to be specifically approved by Convocation as part of the approval of the financial statements.

As the Special Projects Fund sees the transfer of budgeted funds in and out of that Fund, the following information is intended to provide greater clarity.

The Special Projects Fund ensures that budgeted funds approved by Convocation and intended for a specific initiative in a given budget year, remain available for the successful completion of the project in the following year if the project is delayed.

In 2021, the transfers from the Special Projects Fund to the General Fund relate to:

- \$4,000 to fund updates to the Facilities Condition Assessment and 10-year Facility Plan (FCA) which informed the development of the facilities capital budget. The FCA was budgeted in 2019 but was delayed to allow the completion of some large facilities projects in 2019, which would impact the assessment. The FCA was completed in 2020 with minor updates finalized in February 2021. The results of the FCA were used in the development of the capital budget in 2021 and 2022.
- \$5,000 to fund grounds maintenance activities in 2021. The funding was originally received as a grant from Canada Life in response to the development of a building adjacent to the Law Society's property and the negative impact it would have on sun exposure for our grounds. This grant has now been fully utilized.

In 2021, the transfers from the Special Projects Fund to the Capital Allocation Fund relate to:

- \$19,000 to fund development of additional reporting from the Human Resources Information System (HRIS). The new HRIS solution was included in the 2020 capital budget with enhanced reporting developed in 2021.

Transfers from the General Fund to the Special Projects Fund relate to the following expenditures in 2021:

- \$28,000 to fund the next bencher election. To evenly allocate the cost of the bencher election over four years rather than budget for all election expenses in one year, funds are transferred to the Special Projects Fund each year. This approach allows for the smoothing of the impact on annual fees.

Management Discussion & Analysis

The primary Management Discussion and Analysis follow this report at [Tab 2.1.1](#) and accompany the Annual Financial Statements. In addition, supplementary unaudited Schedules of Revenues and Expenses for the General Fund, Compensation Fund and Errors & Omissions Fund comparing actual results to budget are included for Convocation at [Tab 2.1.3](#) with analysis below.

LAW SOCIETY OF ONTARIO

2021 Annual Financial Statements

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LAW SOCIETY OF ONTARIO

2021 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Ontario's ("Society") Lawyer and Paralegal General Funds, which account for the Society's program delivery and administrative activities, ended the year with combined revenues in excess of expenses of \$9.0 million (2020 – \$4.1 million). To reduce annual fees for licensees, the 2021 budget incorporated funding of \$6.2 million from the fund balance of the Lawyer General Fund along with \$1.2 million in funding from surplus investment income in the Errors & Omissions Insurance Fund ("E&O Fund"). Similarly, the 2021 budget planned for utilization of \$1.1 million of the Paralegal General Fund balance to fund operations associated with the Paralegal General Fund. The use of the fund balances is based on the Society's Fund Balance Management Policy and not-for-profit budgeting best practices.

The Society's positive financial results compared to budget for 2021 in the General Funds were driven by three key factors: revenues exceeding budget (\$6.5 million), the continued impact of the COVID-19 pandemic on expenses (\$9.9 million), and the budgeted contingency not used (\$1 million). As the Society ended the year with revenues exceeding expenses, it did not use the fund balances as planned to supplement operations in 2021.

The Society's restricted funds are reporting combined excess of revenues over expenses of \$3.2 million in 2021 (2020 – \$10.9 million). The lawyer pool of the Compensation Fund is reporting revenues in excess of expenses of \$512,000 (2020 – \$8.7 million). At the end of 2020, after a three-year plan from 2018 to 2020 to restore the financial stability of the lawyer pool of the Compensation Fund, the fund balance was \$30.5 million. With the fund balance restored to above the minimum permissible threshold under the Society's Fund Balance Management Policy, the annual \$5 million levied from lawyers in each of the previous three years was not required. As a result, the Society was able to reduce the 2021 portion of the Compensation Fund annual fee for lawyers from \$219 to \$86. The Errors and Omissions Fund is reporting excess of revenues over expenses of \$2.2 million (2020 – \$941,000) primarily from the increase in fair value of its long-term investment portfolio.

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

The Society implemented the 2021 Annual Fee COVID-19 Deferral Option ("Deferral Option") to assist licensees who were adversely impacted by the pandemic. The Deferral Option allowed licensees who were in sole practices, small firms or newly licensed and who met established criteria to defer payment of their 2021 annual fees until March 31, 2022.

Annual Fees

With an annual fee reduction of \$193 for lawyers and \$42 for paralegals approved in the 2021 budget, total annual fee revenues decreased to \$90.7 million (2020 – \$95.3 million). The reduction in annual fees was partially offset by an increase in the number of licensees billed in 2021.

Insurance Premiums and Levies

The E&O Fund accounts for insurance-related transactions between Lawyers' Professional Indemnity Company ("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 to \$113.7 million in 2021 (2020 – \$101.8 million). Transaction levies increased by \$10.4 million, a 44% increase over 2020, as civil litigation and real estate transaction volumes rose significantly in 2021. The base premium for professional liability insurance coverage for Ontario lawyers increased to \$3,000 in 2021 from \$2,950 in 2020.

Professional Development & Competence ("PD&C")

PD&C revenue comprises licensing process and continuing professional development fees. Total PD&C revenue increased this year to \$22.6 million (2020 – \$20.0 million).

Licensing Process revenue from lawyer candidates (\$12.8 million) and paralegal candidates (\$2.5 million) has increased by \$1.6 million from 2020. The underlying licensing process fees charged to candidates were unchanged, but a few factors drove the increase in revenue. In 2020, an increased number of candidates deferred their examinations to 2021. Revenue from licensing examinations is only recognized when candidates attempt the examination, thus the higher revenue in 2021. Another factor was 2021 saw a return to a more normal number of articling positions available in comparison to 2020. The number of positions in 2020 was impacted by the pandemic in particular at the outset when stricter social gathering and physical distancing restrictions were in place affecting the ability for articling principals to take on articling candidates.

Total Continuing Professional Development ("CPD") revenue increased to \$7.3 million (2020 – \$6.2 million). CPD revenues in 2020 were more notably impacted by the pandemic due to the sudden cancellation of all in-person programming with lead time required to shift to virtual platforms, and the delivery of several complimentary CPD webinars to support licensees. While COVID-19 related large group gathering restrictions continued into 2021, the Society was able to successfully pivot program delivery and content using virtual platforms to provide on-demand webinars and live webcasts. Growth in attendance increased over last year and exceeded budget expectations although revenues have not returned to pre-pandemic levels as in-person programming continues to be hindered by COVID-19 related restrictions.

Investment Income and Change in Fair Value of Investments

Investment returns rebounded in 2021 to \$8.3 million (2020 – \$3.9 million) after the significant financial market volatility of 2020. Of this total, \$2.5 million pertains to the General Funds, \$3.6 million is related to the Compensation Fund, with the remaining \$2.2 million specific to the E&O Fund. The favourable results are primarily driven by growth in the market value of the Society's portfolio to the end of the year. With the financial markets once again volatile in early 2022, the Society is feeling the effect on the market value of its portfolio investments.

Convocation approved a new investment policy and appointed a new investment manager in 2021. The new policy added global equities to the allowable investments and established new asset mixes for each of the General, Compensation and E&O Fund portfolios.

Other Revenue

Other revenue of \$6.7 million (2020 – \$7.5 million) primarily comprises income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries. As part of the Report on Recommendations for Strategic Change aimed at reducing burden for licensees, Convocation approved for 2021 the elimination of fees related to the late payment of annual fees or late filing of annual reports. The elimination of the late fees is a notable contributing factor to the decrease in other revenue.

Expenses

Expenses of the Lawyer and Paralegal General Funds focus on operations and were \$97.9 million (2020 – \$97.6 million). The 2021 budget incorporated cost containment measures of \$4.9 million, predominantly related to salaries and benefits, reducing the budget to \$111.3 million. While COVID-19 related impacts continued, the Society realized savings in areas where government and public health restrictions limited operations while also moving forward with managing policy and operational priorities.

Professional Regulation, Tribunals and Compliance

Total regulatory expenses increased slightly to \$31.1 million (2020 – \$30.7 million) but were less than budget. The variance from budget was driven by lower external counsel fees as the number of matters with external counsel declined, reduced costs related to adjudicator expenses, and the continued impact of work from home protocols that produced savings in travel, office expense and document reproduction costs.

Professional Development and Competence

Total PD&C expenses have decreased slightly to \$26.4 million (2020 – \$26.8 million) and were also less than budget. Lawyer and paralegal licensing examination costs were comparable to prior year at \$10.6 million. The 2021 budget assumed in-person licensing examinations. With the backdrop of an ongoing pandemic, Convocation decided in February 2021 to maintain online examinations, which resulted in lower than anticipated spending as the 2021 budget did not contemplate this change. Other reasons for lower expenses compared to budget are due to reduced travel costs as audits and reviews were performed remotely for most of the year.

Corporate Services

Corporate services expenses, primarily comprising the Client Service Centre, Information Technology, Facilities, Finance, Office of General Counsel and Human Resources, along with general corporate costs, were \$28.5 million (2020 – \$27.6 million). Contributing to the increased costs were rising insurance premiums and expanded coverage, investments to support a hybrid environment, cost of advisors to manage Ontario Line developments, and additional information technology cloud service subscriptions.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including bench related expenses, increased to \$6.4 million (2020 – \$6.0 million). With COVID-19 restrictions, meetings of Convocation and Committees, and stakeholder engagement events continued to be held virtually in 2021. The increase in expenses is mostly related to filling previous staff vacancies. With pandemic restrictions affecting travel and all in-person activities, costs related to bench remuneration and expense reimbursement, in-person stakeholder events and those associated with the Treasurer's Office were well under budget.

Services to Licensees and Public

Services to licensees and the public decreased to \$5.5 million (2020 – \$6.4 million) and were also less than budget. The decrease from both prior year and budget was primarily due to the closure of catering operations in March 2020 in response to the pandemic.

Changes in Fund Balances

General Fund

The excess of revenues over expenses for the year of \$8.1 million led to an increase in the fund balance of the Lawyer General Fund to \$38.3 million. Convocation's Fund Balance Management Policy establishes minimum and maximum benchmarks of two and three months of operating expenses, to be maintained as the Lawyer General Fund balance; a balance between \$17.3 million and \$26.0 million. As the fund balance of the Lawyer General Fund was projected to exceed three months of budgeted General Fund expenses, the Society's 2022 budget planned for the use of \$6.4 million of the fund balance to mitigate the lawyer annual fee.

Revenues in excess of expenses for the year of \$863,000 led to the fund balance of the Paralegal General Fund increasing to \$2.7 million. The Society's 2022 budget planned for the use of \$1.15 million of this fund balance to mitigate the paralegal annual fee.

Restricted Funds

In 2021, the excess of revenues over expenses for the year in the lawyer pool of the Compensation Fund amounted to \$512,000, increasing the fund balance for lawyers to \$31.1 million. The Society utilizes stochastic modeling to forecast future claims experience against the lawyer pool of the Compensation Fund. This model is also used by the Society's Lawyer Compensation Fund Balance Management Policy to determine fund balance minimum and maximum thresholds, which are set at an amount sufficient to provide for a minimum of one 97.5th percentile aggregate claim scenario (a one-in-forty-year event) and a maximum of four 99th percentile aggregate claim scenarios (four one-in-one-hundred-year events). The fund balance of the lawyer pool of the Compensation Fund was impacted by two offsetting factors. First, the change in the fair market value of investments was a gain of \$2.5 million with such changes unbudgeted due to their unpredictability. This was offset by an increase in the provision for unpaid grants expense exceeding budget by \$2.2 million as a result of increased activity and claim amounts within the Compensation Fund. Contributing to this increase are notable claims related to a single lawyer.

In 2021, the Compensation Fund balance for paralegals increased slightly to \$964,000 after revenues in excess of expenses for the year of \$5,000.

The E&O Fund balance increased slightly to \$57.6 million after revenues in excess of expenses for the year of \$2.2 million. The approved transfer of \$1.2 million from the E&O Fund to the Lawyer General Fund approved in the 2021 budget was not executed due to the favourable operating results in the Lawyer General Fund.

Statement of Financial Position

Portfolio Investments

Portfolio investments are shown at fair value of \$84.6 million (2020 – \$69.7 million). This increase is the result of a transfer of approximately \$7 million from cash and short-term investments to the long-term investment portfolio and the increase in fair market value of the portfolio investments.

Deferred Revenue

Deferred revenue relates primarily to insurance premiums, licensing process fees and other fees collected prior to December 31 relating to the subsequent fiscal year. Deferred revenue increased to \$7.0 million (2020 – \$5.7 million). This increase is primarily due to increased insurance premiums collected in 2021.

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants increased to \$20.8 million (2020 – \$16.9 million). The provision for unpaid grants liability in the Compensation Fund represents the estimate for unpaid claims against the Compensation Fund, supplemented by the costs for processing these claims. The increase in this liability in the current year is due to increased claims activity in both the lawyer and paralegal pools of the Compensation Fund, with notable claims related to one lawyer and one paralegal impacting each pool respectively.

Conclusion

The Society continued to respond to COVID-19 pandemic related challenges while looking forward and implementing strategic changes with a focus on modernization and proportionate regulation. In 2021, the Society implemented initiatives to assist licensees to cope with the pandemic; this included the 2021 Annual Fee COVID-19 Deferral Option. It made changes to reduce burden for lawyers and paralegals with the redesigned annual report and the elimination of administrative late fees — all part of the Report on Recommendations for Strategic Change approved by Convocation.

Despite the continued pandemic uncertainty and impacts, the Society is in a financially sound position. In developing the 2022 budget, the Society projected that planned use of fund balances for 2021 would not occur. As a result, it planned for the use of \$6.4 million and \$1.15 million of the fund balances of the Lawyer and Paralegal General Funds to fund operations in 2022. Even with this utilization of fund balances, the Society is well placed to cope with challenges that may come with further financial market volatility, instability in the global economy, and claims pressure on the Compensation Fund which is the historical pattern after an economic downturn. As the Society looks forward to 2022, its focus is two-fold: stabilization and transformation. With renewed optimism, the aim is to stabilize in a post-pandemic environment and begin efforts to evolve the Society's operations and regulatory processes through investments in systems, infrastructure and people.



Independent auditor's report

To the Members of the Law Society of Ontario

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Law Society of Ontario (the Law Society) 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 Law Society's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of financial position and change in fund balances for the year then ended;
- the 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 Law Society 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 information, other than the financial statements and our auditor's report thereon, included in the annual report.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 Law Society'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 Law Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Law Society'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 Law Society'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 Law Society'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 Law Society 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March @, 2022

LAW SOCIETY OF ONTARIO
Statement of Financial Position

Stated in thousands of dollars

As at December 31

	2021	2020
Assets		
Current Assets		
Cash (note 10)	37,317	31,625
Short-term investments	15,794	17,740
Accounts receivable (notes 4 and 9)	14,388	13,258
Prepaid expenses	2,498	2,507
Total current assets	69,997	65,130
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	84,552	69,711
Loan receivable (note 7)	1,701	1,427
Capital assets (note 8)	6,655	7,727
Intangible assets (note 8)	2,667	2,821
Total Assets	201,214	182,458
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 5 and 9)	10,330	9,126
Deferred revenue	7,039	5,744
Due to LAWPRO (note 4)	6,827	7,764
Total current liabilities	24,196	22,634
Provision for unpaid grants	20,769	16,853
Unclaimed trust funds (note 10)	7,109	6,075
Lease obligations	798	756
Total Liabilities	52,872	46,318
<i>Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)</i>		
Fund Balances		
General funds		
Lawyers	38,333	30,301
Paralegals	2,685	1,832
Restricted funds (note 18)		
Compensation - lawyers	31,055	30,543
Compensation - paralegals	964	959
Errors and omissions insurance	57,577	55,386
Capital allocation	7,123	5,458
Invested in capital and intangible assets	9,322	10,548
County libraries	117	85
Other	1,166	1,028
Total Fund Balances	148,342	136,140
Total Liabilities and Fund Balances	201,214	182,458

The accompanying notes are an integral part of these financial statements

On behalf of Convocation



Treasurer



Chair, Audit & Finance Committee

LAW SOCIETY OF ONTARIO

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the year ended December 31

	2021	2020	2021	2020	2021	2020	2021	2020
	General Fund Lawyer		General Fund Paralegal		Restricted Funds (note 18)		Total	
Revenues								
Annual fees	69,755	67,836	5,694	5,525	15,225	21,953	90,674	95,314
Insurance premiums and levies	-	-	-	-	113,716	101,820	113,716	101,820
Professional development and competence	19,301	17,075	3,329	2,886	-	-	22,630	19,961
Investment income	639	653	72	83	1,383	1,452	2,094	2,188
Change in fair value of investments	1,628	493	205	62	4,401	1,108	6,234	1,663
Other (note 12)	5,596	6,040	655	1,064	462	397	6,713	7,501
Total revenues	96,919	92,097	9,955	9,620	135,187	126,730	242,061	228,447
Expenses								
Professional regulation, tribunals and compliance	29,386	28,179	1,717	2,547	-	-	31,103	30,726
Professional development and competence	23,263	24,094	3,103	2,745	-	-	26,366	26,839
Corporate services	25,291	24,387	3,199	3,190	-	-	28,490	27,577
Convocation, policy and outreach (note 13)	5,832	5,457	607	544	-	-	6,439	6,001
Services to licensees and public	5,036	5,851	466	586	-	-	5,502	6,437
Restricted (note 18)	-	-	-	-	131,959	115,838	131,959	115,838
Total expenses	88,808	87,968	9,092	9,612	131,959	115,838	229,859	213,418
Excess of revenues over expenses	8,111	4,129	863	8	3,228	10,892	12,202	15,029
Fund balances, beginning of year	30,301	26,106	1,832	1,834	104,007	93,171	136,140	121,111
Interfund transfers (notes 2 and 14)	(79)	66	(10)	(10)	89	(56)	-	-
Fund balances, end of year	38,333	30,301	2,685	1,832	107,324	104,007	148,342	136,140

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Statement of Cash Flows

Stated in thousands of dollars

For the year ended December 31

	2021	2020
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of revenues over expenses	12,202	15,029
Items not affecting cash:		
Amortization of capital assets	1,813	1,936
Amortization of intangible assets	1,252	797
Loss on disposal of capital and intangible assets	-	16
Lease obligations	42	108
	15,309	17,886
Net change in non-cash operating items:		
Accounts receivable	(1,130)	(1,291)
Prepaid expenses	9	627
Accounts payable and accrued liabilities	1,205	(4,780)
Provision for unpaid grants	3,916	(586)
Due (to)/from LAWPRO	(937)	410
Deferred revenue	1,295	(10,287)
Fund contribution - unclaimed trusts	1,034	488
Cash from operating activities	20,701	2,467
Investing		
Portfolio investments - net	(14,842)	(5,890)
Loan receivable	(274)	(265)
Short-term investments - net	1,946	1,969
Capital asset and intangible asset additions	(1,839)	(1,519)
Cash used in investing activities	(15,009)	(5,705)
Net inflow (outflow) of cash, during the year	5,692	(3,238)
Cash, beginning of year	31,625	34,863
Cash, end of year	37,317	31,625

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Notes to Financial Statements, December 31, 2021

Stated in whole dollars except where indicated

1. Background

The Law Society of Ontario (“Society”) was founded in 1797 and incorporated in 1822 with the enactment of the *Law Society Act*.

The *Law Society Act*, section 4.1, states that it is a 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 licensees 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.

The primary sources of revenues are licensee annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society. As at December 31, 2021, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 57,700 and 10,600, respectively.

The Society is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

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

Subsidiaries and Related Entity

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LiRN Inc. ("LiRN") and a related entity, The Law Society Foundation. The audited annual financial statements for these three entities are available separately.

General Funds

The General Funds account for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. These funds report unrestricted resources.

The Society's policy is to maintain the Lawyer General Fund balance at no less than two and no more than three months of Lawyer General Fund budgeted expenses.

If the Lawyer General Fund balance exceeds three months of budgeted Lawyer General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- mitigate the Lawyer General Fund levy for the next fiscal year;
- transfer the excess to another Society fund if the fund balance is below its stated policy benchmark.

If the Lawyer General Fund balance is less than two months of budgeted Lawyer General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the Lawyer General Fund balance is more than two months of budgeted Lawyer General Fund expenses and less than three months of budgeted Lawyer General Fund expenses, Convocation may appropriate funds from the Lawyer General Fund balance for one or more of the following:

- mitigate the Lawyer General Fund levy for the next fiscal year;
- transfer the excess to another Society fund if the fund balance is below its stated policy benchmark.

As at December 31, 2021, the Lawyer General Fund balance was \$38,333,000 (2020 – \$30,301,000). The Lawyer General Fund balance as of December 31, 2021 exceeds three months of budgeted Lawyer General Fund expenses. The 2022 budget plans for the use of \$6,384,000 of the Lawyer General Fund balance in order to mitigate the Lawyer General Fund levy in 2022.

As at December 31, 2021, the Paralegal General Fund balance was \$2,685,000 (2020 – \$1,832,000).

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 licensee, in connection with the licensee's professional business or in connection with any trust of which the licensee was a trustee.

Pursuant to the *Law Society Act*, the Compensation Fund is supported by licensee annual fees, investment income and recoveries. The Compensation Fund expenses are only for payment of grants, and direct program delivery and administration costs. There are separate fund balances for lawyer licensees and paralegal licensees.

The Society's policy is to maintain the lawyer pool of the Compensation Fund balance at an amount sufficient to provide for a minimum of one 97.5th percentile aggregate claim scenarios (one-in-forty-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred-year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

If the lawyer pool of the Compensation Fund balance exceeds four one-in-one-hundred-year events, Convocation shall utilize some or all of the excess for the following:

- mitigation of the lawyer pool of the Compensation Fund levy for the next fiscal year;
- annual mitigation of the lawyer pool of the Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the lawyer pool of the Compensation Fund balance is less than the minimum of one one-in-forty-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the lawyer pool of the Compensation Fund balance is more than the minimum of one one-in-forty-year event and less than four one-in-one-hundred-year events, Convocation may:

- mitigate the lawyer pool of the Compensation Fund levy for the next fiscal year;
- budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- leave the fund balance at its current balance for the upcoming fiscal year.

As at December 31, 2021, the lawyer pool of the Compensation Fund balance was \$31,055,000 (2020 – \$30,543,000) and is within the minimum and maximum policy benchmarks of \$19,570,000 and \$96,296,000, respectively.

The statement of financial position for the Compensation Fund is set out below:

(\$000s)	2021	2020
Cash and short-term investments	12,978	18,433
Portfolio investments	39,932	30,541
Total assets	52,910	48,974
Accounts payable and accrued liabilities	122	620
Provision for unpaid grants - lawyers	20,398	16,628
Provision for unpaid grants - paralegals	371	224
Total liabilities	20,891	17,472
Fund balance - lawyers	31,055	30,543
Fund balance - paralegals	964	959
Total liabilities and fund balances	52,910	48,974

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 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.

As at December 31, 2021, the E&O Fund balance was \$57,577,000 (2020 – \$55,386,000). The fund balance is comprised of:

(\$000s)	2021	2020
Investment in LAWPRO	35,642	35,642
Unrestricted	21,935	19,744
Total fund balance	57,577	55,386

Convocation, with the adoption of the Society’s annual budget, has periodically approved the transfer of accumulated investment income surplus to the needs of the E&O Fund to the Lawyer General Fund. There were no transfers of accumulated investment income from the E&O Fund to the Lawyer General Fund in 2020 or 2021.

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 and intangible assets, which comprise buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society’s capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. As at December 31, 2021, the fund balance was \$7,123,000 (2020 – \$5,458,000).

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Society’s capital assets and intangible assets, specifically acquisitions, amortization and disposals. As at December 31, 2021, the balance was \$9,322,000 (2020 – \$10,548,000), representing the net book value of the Society’s capital and intangible 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 revenues generated from lawyer annual fees specific for county library purposes, which are used to fund grants to LiRN. The fund balance as at December 31, 2021 was \$117,000 (2020 – \$85,000).

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. As at December 31, 2021, the fund balance was \$75,000 (2020 – \$84,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 2021 was \$778,000 (2020 – \$778,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (“PLAP”) and is funded by lawyers’ annual fees. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under PLAP, 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. As at December 31, 2021, the fund balance was \$313,000 (2020 – \$166,000).

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting (“Part III”).

Financial instruments

The Society’s financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

Asset / Liability	Measurement
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian and global equity pooled funds. Transaction costs are expensed as incurred. The carrying values of accounts receivable, loan receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate fair value due to their nature or capacity for prompt liquidation.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society’s investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 5 years. The Society has no material 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 through compliance with the Society’s investment policy, which requires a diversified portfolio of government bonds, corporate bonds and Canadian and global equities meeting specified quality requirements.

Currency risk

The Society is exposed to currency risk with respect to its portfolio investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

At year end, the maximum exposure of the Society to foreign currency risk in portfolio investments was \$21,025,000 (2020 – \$nil). During the 2021 year, Convocation approved the expansion of the Society's investment policy to include global equities as allowable investments. Currency risk is mitigated through investment into geographically diversified investments in pooled funds.

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, loan receivable, short and long-term fixed income investments was \$107,576,000 (2020 – \$96,100,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year-end, the maximum exposure of the Society to credit risk in accounts receivable was \$14,388,000 (2020 – \$13,258,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

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

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

Cash and short-term investments

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

Portfolio investments

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building and leasehold improvements	Lesser of 10 years or term of lease
Furniture, equipment and computer hardware	3 to 5 years

Intangible assets

Intangible assets comprising computer applications and software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over three years.

Revenue recognition

Annual licensee fees, insurance 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.

Insurance premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue.

Professional development and competence revenues are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Other revenues and realized investment gains/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, insurance premiums and other revenues receivable are recorded as accounts receivable on the statement of financial position, net of any provision for doubtful amounts.

Provision for unpaid 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. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of \$150,000 for claims incurred before September 22, 2016 and \$500,000 thereafter. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants and administrative expenses.

Provisions for unpaid grants are recorded as liabilities on the statement of financial position. 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 net of recoveries. Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 1.31% (2020 – 0.61%).

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. There have not been any significant changes to the collections in the current year.

Volunteer services

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, or achieve ex-officio or emeritus status based on past service.

Elected and ex-officio benchers are remunerated for adjudication and authorization activities. They are only remunerated for eligible governance work 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 accounting standards for not-for-profit organizations 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 certain liabilities and unpaid grants 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:

	2021	2020
LAWPRO	35,642,000	35,642,000
LiRN	100	100
Total investment in subsidiaries	35,642,100	35,642,100

LAWPRO

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

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

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

The investment in LAWPRO comprises:

(\$000s)	2021	2020
30,000 common shares of par value of \$100 each	3,000	3,000
20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of \$100 each	2,000	2,000
Investment in LAWPRO shares	5,000	5,000
Contributed capital	30,642	30,642
Total investment	35,642	35,642

Summarized below is the financial information of LAWPRO. LAWPRO prepares their financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. There are significant differences between IFRS and accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting, including the accounting for leases and for unrealized gains and losses and other items that are reflected through the statement of comprehensive income of LAWPRO.

Summarized statement of financial position of LAWPRO:

(\$000s)	2021	2020
Total assets	819,329	802,396
Total liabilities	533,548	532,826
Total shareholders equity	285,781	269,570
Total liabilities and shareholders equity	819,329	802,396

Summarized statement of profit (loss) of LAWPRO for the year ended December 31:

(\$000s)	2021	2020
Revenue	132,165	154,459
Expenses	129,651	126,469
Income before taxes	2,514	27,990
Income tax expense	333	6,980
Net income	2,181	21,010
Other comprehensive income (loss) net of tax	14,030	(22,741)
Comprehensive income (loss)	16,211	(1,731)

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

(\$000s)	2021	2020
Net cash inflow from operating activities	13,500	14,558
Net cash inflow (outflow) from investing activities	3,629	(24,538)
Net cash outflow from financing activities	(404)	(389)
Cash and cash equivalents, beginning of year	7,748	18,117
Cash and cash equivalents, end of year	24,473	7,748

LAWPRO administers the operations of the E&O Fund on behalf of the Society at no charge under an administrative services agreement. LAWPRO billed the Society \$113,716,000 (2020 – \$101,820,000) for premiums during the year. LAWPRO contributed \$560,000 to the Society towards directors’ fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees (2020 – \$561,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in the Society’s financial statements are amounts due to LAWPRO of \$6,827,000 (2020 – \$7,764,000). The amounts due to LAWPRO are non-interest bearing and have no fixed terms of repayment.

LiRN

LiRN, 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. LiRN was incorporated under the *Business Corporations Act (Ontario)* in 2001 and at the beginning of 2020, Articles of Amendment were filed to rename LibraryCo. Inc. as LiRN Inc.

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 Federation of Ontario Law Associations (“FOLA”). The independent skills-based board of directors of LiRN is appointed based on the recommendations of a Nominating Committee comprised of three members from the Society, two members from FOLA and one member from TLA.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LiRN. 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 statement of financial position of LiRN:

(\$000s)	2021	2020
Total assets	788	1,091
Total liabilities	92	57
Total share capital and fund balances	696	1,034
Total liabilities, share capital and fund balances	788	1,091

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

(\$000s)	2021	2020
Total revenue	7,221	8,027
Total expenses	7,559	8,001
Excess of revenues over expenses / (Excess of expenses over revenue)	(338)	26

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

(\$000s)	2021	2020
Net cash (outflow) inflow from operating activities	(306)	25
Cash, beginning of year	1,034	1,009
Cash, end of year	728	1,034

The Society provided LiRN with a grant of \$7,217,000 (2020 – \$8,019,000) during the year. The Society provides some administrative services to LiRN as well as certain other services and publications. The total amount billed by the Society for 2021 was \$52,000 (2020 – \$11,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LiRN of \$8,000 (2020 – \$1,000).

5. Related Entity

The Law Society Foundation (“LSF”) is regarded as a related entity, 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 and receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities and certain administration services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society’s accounts are amounts due to the LSF of \$nil (2020 – due to LSF of \$1,000).

6. Portfolio Investments

(\$000s)	2021	2020
Debt securities	52,764	45,308
Canadian equities	10,763	24,403
Global equities	21,025	-
Total portfolio investments	84,552	69,711

The debt securities have effective interest rates and maturity dates as follows:

	2021	2020
Effective interest rates (%)	0.2 - 4.3	0.2 - 2.6
Maturity dates (years)	1 - 7	1 - 8

7. Loan Receivable

Canadian Legal Information Institute (“CanLII”) is a not-for-profit organization established by the Federation of Law Societies to provide access to judicial decisions and legislative documents on the internet. Lexum Informatique Juridique Inc. (“Lexum”) is a software company that operates online legal information delivery products, primarily for CanLII. CanLII purchased all the shares of Lexum in 2018. The Society contributed \$878,000 to a subordinated syndicated loan with all the other Canadian law societies as part of the funding of this purchase in 2018. This loan has an annual interest rate of 4.74%, compounded semi-annually and will mature on February 23, 2023.

In 2021, the Society made an annual repayable capital payment of \$265,000 (2020 – \$274,000) as the final balance of sale payment to the vendors of Lexum.

8. Capital Assets and Intangible Assets

Capital Assets (\$000s)	2021			2020
	Cost	Accumulated amortization	Net	Net
Land and buildings	25,395	25,395	-	468
Building and leasehold improvements	29,940	23,710	6,230	6,668
Furniture, equipment and computer hardware	2,763	2,338	425	591
Total capital assets	58,098	51,443	6,655	7,727

Intangible Assets (\$000s)	2021			2020
	Cost	Accumulated amortization	Net	Net
Computer applications and software	10,514	7,847	2,667	2,821
Total intangible assets	10,514	7,847	2,667	2,821

9. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts receivable, accounts payable and accrued liabilities is \$500,228 due from government remittances, primarily sales taxes (2020 – \$404,978).

The accounts receivable balance comprises:

(\$000s)	2021	2020
Accounts receivable	41,602	36,416
Allowance for doubtful accounts	27,214	23,158
Accounts receivable – net	14,388	13,258

The allowance for doubtful accounts mainly relates to annual fees, regulatory compliance ordered costs and licensing process fees.

10. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a licensee 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 *Law Society 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 \$7,109,000 (2020 – \$6,075,000).

11. Other Trust Funds

The Society administers client funds for licensees under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the statement of financial position. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. As at December 31, 2021, total funds held in trust amount to \$3,525,000 (2020 – \$3,815,000).

12. Other Revenues

Other Revenues primarily comprise income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries.

13. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio and lay benchers during the year of \$601,000 (2020 – \$309,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was \$4,000 (2020 – \$61,000). The Treasurer's honorarium expense for the year was \$210,000 (2020 – \$206,000).

14. Interfund Transfers

During the year, the following net interfund transfers took place, which have been approved by Convocation:

- \$1,839,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;
- \$70,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2021 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$28,000 from the General Funds to the Special Projects Fund to fund the next bencher election;
- \$19,000 from the Special Projects Fund to the Capital Allocation Fund to fund further enhancements to the Human Resources Information System; and
- \$9,000 from the Special Projects Fund to the General Fund to fund updates to the facilities condition assessment and maintenance of the Society's grounds.

15. 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, elects to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2021 amounted to \$2,952,752 (2020 – \$3,017,000).

16. Commitments

The Society is committed to monthly lease payments for basic and additional rent for property under leases having various terms up to February 2028. Aggregate minimum annual payments to the expiry of the leases are approximately as follows:

2022	\$2,464,000
2023	\$2,580,000
2024	\$2,697,000
2025	\$2,813,000
2026	\$2,906,000
Thereafter	\$3,390,000
Total	<u>\$16,850,000</u>

In 2021, the Society received a request from the Law Commission of Ontario (“LCO”) for continued funding in support of its mandate. The LCO’s request is for annual contributions from the Society over a four-year period beginning in 2022. Convocation approved the Society’s contribution of \$157,000 for 2022 through its budget process.

17. 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.

18. Schedule of Restricted Funds

A schedule of Restricted Funds is set out below.

Stated in thousands of dollars

As at December 31

	2021							2020	
	Compensation Fund Lawyer	Paralegal	Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total	Total
Fund balances, beginning of year	30,543	959	55,386	5,458	10,548	85	1,028	104,007	93,171
Revenues									
Annual fees	3,923	6	-	3,797	-	7,249	250	15,225	21,953
Insurance premiums and levies	-	-	113,716	-	-	-	-	113,716	101,820
Investment income	892	47	444	-	-	-	-	1,383	1,452
Change in fair value of investments	2,521	133	1,747	-	-	-	-	4,401	1,108
Other	440	22	-	-	-	-	-	462	397
Total revenues	7,776	208	115,907	3,797	-	7,249	250	135,187	126,730
Total expenses	7,264	203	113,716	312	3,065	7,217	182	131,959	115,838
Excess of revenues over expenses (expenses over revenues)	512	5	2,191	3,485	(3,065)	32	68	3,228	10,892
Interfund transfers	-	-	-	(1,820)	1,839	-	70	89	(56)
Fund balances, end of year	31,055	964	57,577	7,123	9,322	117	1,166	107,324	104,007

LAW SOCIETY OF ONTARIO
Lawyers and Paralegals General Fund
Schedule of Revenues and Expenses

Stated in thousands of dollars
For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	75,449	74,596	853	73,361
Professional development and competence	22,630	19,509	3,121	19,961
Investment income	711	852	(141)	736
Change in fair value of investments	1,833	-	1,833	555
Other	6,251	5,423	828	7,104
Total revenues	106,874	100,380	6,494	101,717
EXPENSES				
Professional regulation, tribunals and compliance	31,103	33,279	2,176	30,726
Professional development and competence	26,366	30,378	4,012	26,839
Corporate services	28,490	27,916	(574)	27,577
Convocation, policy and outreach	6,439	10,719	4,280	6,001
Services to licensees and public	5,502	6,528	1,026	6,437
Total expenses	97,900	108,820	10,920	97,580
Excess of revenues over expenses (expenses over revenues)	8,974	(8,440)	17,414	4,137

LAW SOCIETY OF ONTARIO
General Fund - Lawyers
Schedule of Revenues and Expenses

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	69,755	69,012	743	67,836
Professional development and competence	19,301	16,665	2,636	17,075
Investment income	639	756	(117)	653
Change in fair value of investments	1,628	-	1,628	493
Other	5,596	4,774	822	6,040
Total revenues	96,919	91,207	5,712	92,097
EXPENSES				
Professional regulation, tribunals and compliance	29,386	31,456	2,070	28,179
Professional development and competence	23,263	26,807	3,544	24,094
Corporate services	25,291	24,872	(419)	24,387
Convocation, policy and outreach	5,832	9,634	3,802	5,457
Services to licensees and public	5,036	5,810	774	5,851
Total expenses	88,808	98,579	9,771	87,968
Excess of revenues over expenses (expenses over revenues)	8,111	(7,372)	15,483	4,129

LAW SOCIETY OF ONTARIO
General Fund - Paralegals
Schedule of Revenues and Expenses

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	5,694	5,584	110	5,525
Professional development and competence	3,329	2,844	485	2,886
Investment income	72	96	(24)	83
Change in fair value of investments	205	-	205	62
Other	655	649	6	1,064
Total revenues	9,955	9,173	782	9,620
EXPENSES				
Professional regulation, tribunals and compliance	1,717	1,823	106	2,547
Professional development and competence	3,103	3,571	468	2,745
Corporate services	3,199	3,044	(155)	3,190
Convocation, policy and outreach	607	1,085	478	544
Services to licensees and public	466	718	252	586
Total expenses	9,092	10,241	1,149	9,612
Excess of revenues over expenses (expenses over revenues)	863	(1,068)	1,931	8

LAW SOCIETY OF ONTARIO
Lawyers and Paralegals Compensation Fund
Schedule of Revenues and Expenses

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	3,929	3,882	47	9,321
Investment income	939	1,000	(61)	960
Change in fair value of investments	2,654	-	2,654	658
Recoveries	462	351	111	397
Total revenues	7,984	5,233	2,751	11,336
EXPENSES				
Provision for unpaid grants	6,818	4,606	(2,212)	1,870
Administrative	649	758	109	730
Total expenses	7,467	5,364	(2,103)	2,600
Excess of revenues over expenses (expenses over revenues)	517	(131)	648	8,736

LAW SOCIETY OF ONTARIO
Compensation Fund - Lawyers
Schedule of Revenues and Expenses

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	3,923	3,876	47	9,266
Investment income	892	950	(58)	912
Change in fair value of investments	2,521	-	2,521	625
Recoveries	440	333	107	353
Total revenues	7,776	5,159	2,617	11,156
EXPENSES				
Provision for unpaid grants	6,647	4,490	(2,157)	1,731
Administrative	617	720	103	700
Total expenses	7,264	5,210	(2,054)	2,431
Excess of revenues over expenses (expenses over revenues)	512	(51)	563	8,725

LAW SOCIETY OF ONTARIO
Compensation Fund - Paralegals
Schedule of Revenues and Expenses

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2021 Budget	Variance	2020 Actual
REVENUES				
Annual fees	6	6	-	55
Investment income	47	50	(3)	48
Change in fair value of investments	133	-	133	33
Recoveries	22	18	4	44
Total revenues	208	74	134	180
EXPENSES				
Provision for unpaid grants	171	116	(55)	139
Administrative	32	38	6	30
Total expenses	203	154	(49)	169
Excess of revenues over expenses (expenses over revenues)	5	(80)	85	11

LAW SOCIETY OF ONTARIO

Errors and Omissions Insurance Fund

Schedule of Revenues and Expenses and Change in Fund Balance

Stated in thousands of dollars

For the year ended December 31

	2021 Actual	2020 Actual
REVENUES		
Insurance premiums and levies	113,716	101,820
Investment income	444	492
Change in fair value of investments	1,747	450
Total revenues	115,907	102,762
EXPENSES		
Insurance	113,716	101,821
Total expenses	113,716	101,821
Excess of revenues over expenses	2,191	941
Interfund transfers	-	-
Change in fund balance	2,191	941
Fund balance, beginning of year	55,386	54,445
Fund balance, end of year	57,577	55,386

FOR DECISION

Funding Options

Business and Technology Transformation Initiative

Motion:

That Convocation consider and approve that the Law Society

- a) Proceed with the planning and implementation of the Business and Technology Transformation Initiative (“Initiative”) as presented at the March 9, 2022 Bencher Discussion & Information Session and summarized in this report,**
- b) Transfer \$8.6 million from the unrestricted fund balance of the Errors & Omissions Fund (“E&O Fund”) to the Capital Fund to be restricted for the purpose of funding the Initiative , and**
- c) Assess as part of 2023 budget planning the availability of Lawyer General Fund balance in excess of the maximum threshold under the Law Society’s Lawyer General Fund Balance Management Policy for the purpose of funding the Initiative.**

Background

At the March 9, 2022 Bencher Information and Discussion Session (“Session”), the vision and plan for the Business and Technology Transformation Initiative was presented.

As conveyed during the Session, the Law Society is exposed to notable risks and barriers as a result of its existing legacy information systems and processes. Siloed applications and workflows negatively impact the Law Society’s ability to efficiently deliver on its mandate and provide streamlined services to its stakeholders.

Based on the detailed presentation, there was general consensus at the Session that the Initiative is essential to ensure that the Law Society can fulfil its mandate to effectively regulate licensed legal professionals in the interest of the public well into the foreseeable future.

Benchers at the session learned

- Law Society business operations are currently supported by processes and systems that are significantly outdated, siloed, highly customized, and inflexible. This results in significant annual enterprise-wide operational risks, impacts and costs.
- Its legacy information systems, require significant resources to maintain, require significant manual interventions and do not allow for complete integration.
- Law Society data is housed in various systems and with limited means of accessing it. As a result, the Law Society's ability to serve the needs of licensees, the public and our various stakeholders is inefficient and not cost effective.
- Our licensees, public and candidates expect a more digital experience and peer organizations have moved or are moving to more integrated services to meet expectations. In particular an outcome of the pandemic is higher expectations around digital literacy, mobility and flexibility that cannot be met with the Law Society's existing processes and systems.

To address these risks and barriers, a complete business and technology transformation is required. The Initiative will involve a complete rethink and redesign of business processes and workflows that support all activities associated with a licensee, from applying as a candidate to retirement or resignation of their licence. Ultimately, this will result in more efficient and effective processes for service delivery by the Law Society and a simplified and streamlined experience for candidates, licensees and the public.

The Initiative will require the replacement of the Law Society's core systems and applications, including

- the licensee database
- the case and document management systems for regulatory activities
- the licensing process database and tracking system
- the core financial system

with the result being fully integrated services and modernized systems. While there will be significant capital investments, there should also be annual cost savings once the new systems are in place.

The Initiative is at an early stage with the procurement process underway to retain a Systems Integrator to partner with the Law Society to plan and implement the technology and solution. Following the procurement process, the Law Society will work with the Systems Integrator to complete the planning phase and then embark on

implementation. The project is expected to take approximately five years and will require significant capital resources to develop and complete. The Law Society will incur costs related to the Systems Integrator, licences and IT infrastructure, project and change management support, and backfill resources to ensure we successfully complete the Initiative while maintaining operations to fulfil our regulatory mandate to licensees and the public.

The estimated future funding requirement per year is approximately \$3.5 million to \$4.0 million with the total estimated over the five-year implementation timeline at \$17.5 million to \$20 million. This is a very preliminary estimate that may change once the procurement cycle and planning phase with the Systems Integrator is complete. The 2022 budget approved the use of \$500,000 of the unrestricted fund balance within the Errors & Omissions Fund (“E&O Fund”) to support initial efforts related to the Initiative.

Available Fund Balances

With pandemic related savings and recently unrestricted fund balances, the Law Society is well positioned to use available funding towards the Initiative and mitigate future annual fee increases to support this critical evolution in our business and technology systems.

With the removal of the restriction by Convocation on the \$15 million in the E&O Fund previously restricted as an insurance backstop for the Law Society’s insurance policy with LAWPRO, this funding became available for other purposes. Through decisions made by Convocation in 2021, \$6.4 million has now been committed for approved purposes leaving \$8.6 million unrestricted.

As at December 31, 2021, the Lawyer General Fund balance was \$38.3 million. The Lawyer General Fund Balance Management Policy (“Policy”), available at [Tab 2.2.1](#), establishes minimum and maximum benchmarks for the fund balance at two and three months of budgeted operating expenses. Based on 2022 budgeted expenses¹ for the Lawyer General Fund, the minimum and maximum benchmarks for the fund balance is roughly between \$17.3 million and \$26 million.

The 2022 budget plans to use of \$6.4 million of the Lawyer General Fund balance to fund operations in 2022. This leaves a fund balance of \$5.9 million above the maximum benchmark as at December 31, 2021. This available fund balance can be used to fund the Initiative with a minor adjustment to the Policy. While the Policy allows for the

¹ \$103,868,970, or approximately \$104,000,000

transfer of fund balance that exceeds the equivalent of two months of budgeted operating expenses, financial pressures experienced during the first quarter, due to financial market volatility² and unanticipated expenses related to the Licensing Process and the Ontario Line, suggest it is premature at this time to finalize an amount to be used from the Lawyer General Fund.

Funding Options

The Audit & Finance Committee (“Committee”) considered three approaches to raising the estimated \$17.5 to \$20 million³ in future funding for the Initiative, with two options proposing the use of available unrestricted fund balances to varying degrees.

Option 1 - Use \$8.6 million in unrestricted fund balance within the E&O Fund and up to \$5.9 million of the current excess fund balance in the Lawyer General Fund, with the quantum under the latter to be considered as part of the 2023 budget process. Further funding requirements would be considered in future annual budgets and could be sourced from excess fund balances or raised through annual fees.

Option 2 - Use \$8.6 million in unrestricted fund balance within the E&O Fund combined with funding raised through the Capital Fund component of the annual fee over the five years of the project.

Option 3 - Fund the Initiative solely through licensee annual fees.

Under **Options 1 and 2**, the designated E&O Fund balance amount would be transferred from the E&O Fund to the Capital Fund and would be restricted for the purpose of the Initiative.

In addition to utilizing the \$8.6 million from the E&O Fund balance, **Option 1** proposes the transfer of excess fund balance from the Lawyer General Fund with the amount to be assessed and incorporated into the 2023 budget process. When planning the 2023 budget, if the fund balance is sufficient to support the Law Society utilizing \$5.9 million of the Lawyer General Fund balance, the remainder of the funding requirements based on very preliminary estimates would be in the range of \$3 million to \$5.5 million over the five years. If the required future funding were to be supplemented by annual fees over the term of the project, the estimated impact under this option would range from \$11 to

² Unrealized losses on investments in the first quarter of 2022.

³ This funding requirement is a preliminary estimate pending completion of the RFP process for a Systems Integrator and completion of the planning phase.

\$21 per full fee equivalent (“FFE”) licensee per year. There would also be the option of no increases now, with higher increase in later years, if required, as initial project costs could be funded from the \$8.6 million from the E&O Fund. Utilizing unrestricted fund balances as proposed with this option could mitigate the possible amount to be raised through the Capital Fund levy portion of annual fees for the next 2 to 3 years.

With adoption of **Option 2**, if the full \$8.6 million from the E&O Fund were committed to the Initiative, the remainder of the funding under this option would come from the Capital Fund component of the annual fee requiring \$33 to \$43 per full fee equivalent (“FFE”) licensee for each of the five years based on current estimates. The funding per FFE licensee referenced would be in addition to regular funding for capital expenditures related to facilities repairs and preservation as well as IT core requirements.

Under **Option 3**, given the estimated annual funding requirement of \$3.5 million to \$4.0 million to fund the Initiative, the impact on the annual fee would be an incremental \$66 to \$75 per FFE licensee for the Capital Fund levy for each of the five years. For 2022, the Capital Fund component of the annual fee for both lawyers and paralegals is \$66. At the lower funding requirement estimate, this option would effectively double the Capital Fund requirements.

Recommendation

The success of the Business and Technology Transformation Initiative is critical to enable the Law Society to effectively regulate the legal professions in the long-term. The redesign and modernization of the Law Society’s processes, workflows and information systems is necessary to mitigate the identified risks and to bring greater efficiency and enhanced service to our licensees, candidates and the public.

It is recommended that Convocation approve proceeding with the Initiative in its entirety, including engagement of a System Integrator to work with the Law Society to plan and implement the solution. The initiative will move forward under the usual financial oversight of the Audit and Finance Committee and updates on the status of the project will be provided regularly to Convocation.

To mitigate financial burden through annual fees, it is recommended that Convocation approve funding as set out in Option 1. This would result in the transfer of \$8.6 million of the unrestricted fund balance in the E&O Fund to the Capital Fund and it restricted by Convocation for the purpose of the Initiative. Under this option, it is also recommended that Convocation approve in principle the possible use of excess fund balance in the Lawyer General Fund to fund the Initiative, with the availability and quantum to be considered as part of the 2023 budget process.

Given the length of the project, further funding requirements would be considered in future annual budgets and sourced from any excess fund balance in the General and/or Capital Funds, or raised through the Capital Fund component of the annual fee.

Should Convocation approve Option 1, the Law Society's General Fund Balance Management Policy ("Policy"), as it is currently worded, provides for the use of fund balance in the General Fund that is above the minimum benchmark of two months of operating expenses

- a) To mitigate the Lawyer General Fund levy for the next fiscal year or
- b) for the transfer of an excess to another Law Society Fund ***if the fund balance is below its stated policy benchmark.***

The Capital Fund does not have a fund balance management policy, and therefore does not have a stated policy benchmark.

To allow for a transfer of any excess General Fund balance to the Capital Fund, the Policy would require a minor update at the time of presenting the 2023 budget. The recommended additional parameter to be included in the Policy is to permit the use of General Fund excess fund balances to **"transfer an excess to another Law Society fund to be restricted for a specific purpose approved by Convocation"**. The Policy included at [Tab 2.2.2](#) contains the redlined suggested change.

Lawyer General Fund Management Policy

The Lawyer General Fund is the operating fund, accounting for the Law Society's program delivery and administrative activities related to the regulation and licensing of lawyers.

The current Lawyer General Fund Balance Management Policy is set out below:

- a) *The Law Society's policy is to maintain the sum of the Lawyer General Fund balance at no less than two, and no more than three months of General Fund budgeted expenses.*
- b) *If the Lawyer General Fund balance exceeds three months of budgeted Lawyer General Fund expenses, Convocation shall utilize the excess for one or more of the following:*
 - *Mitigate the Lawyer General Fund levy for the next fiscal year;*
 - *Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.*
- c) *If the Lawyer General Fund balance is less than two months of budgeted Lawyer General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.*
- d) *If the Lawyer General Fund balance is more than two months of budgeted Lawyer General Fund expenses and less than three months of budgeted Lawyer General Fund expenses, Convocation may appropriate funds from the Lawyer General Fund Balance for one or more of the following:*
 - *Mitigate the Lawyer General Fund levy for the next fiscal year;*
 - *Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.*

Suggested Edits to Lawyer General Fund Management Policy

The Lawyer General Fund is the operating fund, accounting for the Law Society's program delivery and administrative activities related to the regulation and licensing of lawyers.

The current Lawyer General Fund Balance Management Policy is set out below:

- a) *The Law Society's policy is to maintain the sum of the Lawyer General Fund balance at no less than two, and no more than three months of General Fund budgeted expenses.*
- b) *If the Lawyer General Fund balance exceeds three months of budgeted Lawyer General Fund expenses, Convocation shall utilize the excess for one or more of the following:*
 - *Mitigate the Lawyer General Fund levy for the next fiscal year;*
 - *Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark;*
 - *transfer the excess to another Law Society fund to be restricted for a specific purpose approved by Convocation.*
- c) *If the Lawyer General Fund balance is less than two months of budgeted Lawyer General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.*
- d) *If the Lawyer General Fund balance is more than two months of budgeted Lawyer General Fund expenses and less than three months of budgeted Lawyer General Fund expenses, Convocation may appropriate funds from the Lawyer General Fund Balance for one or more of the following:*
 - *Mitigate the Lawyer General Fund levy for the next fiscal year;*
 - *Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark;*
 - *for the transfer an excess to another Law Society fund to be restricted for a specific purpose approved by Convocation.*

FOR INFORMATION

Lawyers' Professional Indemnity Company
Audited Financial Statements
for the year ended December 31, 2021

The Committee recommends the audited financial statements for the Lawyers' Professional Indemnity Company ("LAWPRO") for the year ended December 31, 2021 be received by Convocation for information.

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

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

In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability insurance and title insurance.

The audited financial statements for LAWPRO have been approved by their Board and were received for information by the Audit & Finance Committee at its April meeting. The financial statements form part of LAWPRO's Annual Report which can be found at [Tab 5.0](#).

FOR INFORMATION
LiRN INC.
Audited Financial Statements
for the year ended December 31, 2021

The Committee recommends the audited Annual Financial Statements for LiRN Inc. (“LiRN”) for December 31, 2021 be received by Convocation for information.

LiRN is the central manager of the Ontario county courthouse library system in accordance with the objectives, policies and principles established and approved by the Law Society, in consultation with the Federation of Ontario Law Associations and the Toronto Lawyers’ Association, all shareholders of the organization. This is the second year of operations as LiRN since the transition from LibraryCo Inc. at the beginning of 2020.

LiRN is a wholly-owned subsidiary of the Law Society with two classes of shares: 100 common shares and 100 special shares. The Law Society holds all of the common shares outstanding. Of the special shares outstanding, 25 are held by the Toronto Lawyers’ Association and 75 are held by the Federation of Ontario Law Associations.

LiRN is fully funded by the Law Society through the lawyer’s annual fee. The LiRN component of the annual fee for 2021 was \$159 per lawyer. The actual grant to LiRN is determined and approved as part of the Law Society annual budget process. Any variance resulting from the imposition of the per lawyer fee on the actual number of lawyers billed and the grant paid to LiRN is retained in the Law Society’s County Libraries Fund. This Fund Balance is available to mitigate the future LiRN component of the annual fee or to support LiRN operations at the discretion of Convocation. Grants to the 48 county libraries comprised most of LiRN’s expenditures with the balance being centralized expenses such as access to online research products.

These financial statements have been approved by the LiRN Board. They received an unqualified audit opinion from the auditors, PricewaterhouseCoopers LLP, with no issues or exceptions identified.

Management Discussion & Analysis

DECEMBER 31, 2021

Results of Operations

Results for the year report an excess of expenses over revenues of \$339,000 (2020 – \$26,000 excess of revenues over expenses). Uncertainty with the COVID-19 pandemic's impact on the Law Society of Ontario (Law Society) and its licensees prompted the Law Society to review all aspects of its operations with the aim to lower annual fees paid by lawyers. As a result, the Law Society's 2021 budget reduced grant funding to LiRN Inc. (LiRN).

In turn, LiRN reduced grants paid to law associations for library operations. To mitigate the impact on these grants, LiRN's 2021 approved budget planned for excess expenses over revenues of \$456,000 funded from the General Fund balance to support the operations of LiRN and law libraries across Ontario. The 2022 budget anticipated a return to normal operations with Law Society funding of \$8.5 million, exceeding pre-pandemic levels by \$500,000. In addition, one-time transition funding up to \$900,000 was approved for enhanced digital services and the required information technology infrastructure to implement those services.

Administration and professional fees expenses were higher in 2021 due the inclusion of a full year of staffing costs, engagement of an accounting firm for financial administration services, Board recruitment and other transitional expenses.

Statement of Revenues and Expenses – Revenues

The Law Society grant totalled \$7.2 million (2020 - \$8.0 million). The decline in the grant from 2020 was as a result of the Law Society anticipating the pandemic would have a negative financial impact on lawyers and as a result, budgeted for overall reduced costs including the grant to LiRN.

Statement of Revenues and Expenses – Expenses

Administration expenses normalized in 2021 as the resources required to administer LiRN, including staffing and financial administration services, were in place for the full year. Administration expenses were lower in 2020 due to staffing vacancies for a

portion of the year and some services were provided by the Law Society at no charge in support of the transition to LiRN.

Other Head Office Administration expenses are lower in 2021 as costs associated with the transition from LibraryCo. to LiRN were greater in the first year of the change.

Electronic products and services expenses of \$374,000 increased slightly over 2020.

County and district law library grants of \$6.4 million (2020 - \$7.1 million) are detailed by county in the notes to the financial statements and include the annual grants approved as part of the 2021 budget and any in year special needs grants. County and district law library annual grants decreased in 2021 in line with funding reductions to LiRN by the Law Society.

Statement of Financial Position and Statement of Changes in Fund Balances

The General Fund accounts for the delivery, management and administration of library services. The General Fund has decreased by the excess of expenses over revenues of \$339,000 to \$195,000. As referenced, this utilization of General Fund balance was planned for in the 2021 budget.

The Reserve Fund has an unchanged balance of \$500,000.



Independent auditor's report

To the Board of Directors of LiRN Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LiRN Inc. (LiRN) 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

LiRN's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of revenues and expenses for the year then ended;
- the statement of changes in fund balances for the year then ended;
- the 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 LiRN 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 information, other than the financial statements and our auditor's report thereon, included in the annual report.

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215



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 LiRN'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 LiRN or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing LiRN'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 LiRN'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 LiRN'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 LiRN 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 5, 2022

STATEMENT OF FINANCIAL POSITION

Stated in dollars

As at December 31, 2021

	2021	2020
Assets		
Current Assets		
Cash	727,822	1,034,262
Accounts receivable	22,851	23,403
Prepaid expenses	37,440	33,692
Total Assets	788,113	1,091,357
Liabilities, Share Capital & Fund Balances		
Current Liabilities		
Accounts payable & accrued liabilities (note 4 and 6)	93,115	57,468
Total Liabilities	93,115	57,468
Share Capital & Fund Balances		
Share capital (notes 1 and 5)	200	200
General fund (note 2)	194,798	533,689
Reserve fund (note 2)	500,000	500,000
Total Share Capital & Fund Balances	694,998	1,033,889
Total Liabilities, Share Capital & Fund Balances	788,113	1,091,357

The accompanying notes are an integral part of these financial statements

On behalf of the Board of Directors

Chair – Board of Directors

Vice-Chair – Board of Directors

STATEMENT OF REVENUES AND EXPENSES

Stated in dollars

For the year ended December 31, 2021

	2021	2020
Revenues		
Law Society of Ontario grant (note 6)	7,217,194	8,019,094
Interest income	3,990	7,628
Total Revenues	7,221,184	8,026,722
Expenses		
Head Office Administration		
Administration	305,080	79,068
Professional fees	72,097	25,043
Other (note 7)	24,790	100,948
Total Head Office / Administration Expenses	401,967	205,059
Law Libraries - Centralized Purchases		
Electronic products and services	374,026	363,137
Group benefits and insurance	330,827	336,607
Other (notes 6 and 8)	59,981	20,564
Total Law Libraries - Centralized Purchases	764,834	720,308
County and district law libraries grants (note 9)	6,393,274	7,075,663
Total County and District Law Libraries Expenses	6,393,274	7,075,663
Total Expenses	7,560,075	8,001,030
Excess of (Expenses over Revenues)		
Revenues over Expenses	(338,891)	25,692

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN FUND BALANCES

Stated in dollars

For the year ended December 31, 2021

	2021			2020
	General Fund	Reserve Fund	Total	
Balance, beginning of year	533,689	500,000	1,033,689	1,007,997
Excess of (expenses over revenues) revenues over expenses	(338,891)	-	(338,891)	25,692
Balance, end of year	194,798	500,000	694,798	1,003,689

The accompanying notes are an integral part of these financial statements



Legal Information and Resource Network

STATEMENT OF CASH FLOWS

Stated in dollars

For the year ended December 31, 2021

	2021	2020
Net inflow (outflow) of cash related to the following activities		
Excess of (expenses over revenues) revenues over expenses for the year	(338,891)	25,692
Net change in non-cash operating working capital items:		
Accounts receivable	552	1,952
Prepaid expenses	(3,748)	(2,088)
Accounts payable & accrued liabilities	35,647	(1,019)
Cash inflow from operating activities	(306,440)	24,537
Net (outflow) inflow of cash during the year	(306,440)	24,537
Cash, beginning of year	1,034,262	1,009,725
Cash, end of year	727,822	1,034,262

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021

1. General

At the beginning of 2020, the name of the corporation was changed from LibraryCo Inc. to LiRN Inc. (LiRN). LiRN 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 from the Law Society of Ontario (Law Society).

LiRN has two classes of shares: Common shares and Special shares. The Law Society holds all of the 100 Common shares outstanding. Of the 100 special shares outstanding, 25 are held by the Toronto Lawyers Association (TLA) and 75 are held by the Federation of Ontario Law Associations (FOLA).

LiRN is not subject to federal or provincial incomes taxes.

The Law Society provides certain administrative functions to LiRN for no fee.

2. Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations (ASNPO) set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting.

General and Reserve Funds

LiRN follows the restricted fund method.

The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is maintained to assist LiRN's cash flows and act as a contingency fund.

Cash

Cash consists of amounts on deposit with a major financial institution.

Revenue Recognition

Grants are recorded as revenue in the General Fund in the fiscal year in which they are received or receivable.

Interest income is recognized when receivable if the amount can be reasonably estimated.

Grants Paid

Grants paid are recognized in the fiscal year in which they are paid or payable.

Use of Estimates

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

3. Financial Instruments

LiRN's financial assets and financial liabilities are classified and measured as follows:

Asset / Liability	Measurement
Cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

4. Accounts Payable and Accrued Liabilities

There are no amounts of payable for government remittances.

5. Share Capital

Authorized:

- Unlimited number of Common shares
- Unlimited number of Special shares

Issued:

	2021	2020
100 Common shares	\$100	\$100
100 Special shares	100	100
Total	\$200	\$200

6. Related Party Transactions

The Law Society provided LiRN with a grant of \$7,217,000 (2020 – \$8,019,000) during the year. The Law Society provides certain administrative services to LiRN (note 1) as well as other services and publications. The total amount billed by the Law Society for 2021 was \$51,878 (2020 - \$17,400). Included in accounts payable and accrued liabilities are amounts due to the Law Society of \$7,997 (2020 - \$453).

Lawyers' Professional Indemnity Company (LAWPRO) provides professional liability insurance to lawyers in Ontario and is also a wholly owned subsidiary of the Law Society. There were no transactions with LAWPRO during 2021 or 2020.

These transactions are entered in the ordinary course of business and are measured at fair value.

7. Other Expenses – Head Office/Administration

Included in these expenses are directors' and officers' insurance, Board of Directors' meetings, telephone services and other miscellaneous items.

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

Included in these expenses are costs associated with continuing education bursaries, conference bursaries, document delivery, publications, committee meetings and miscellaneous items.

9. County and District Law Libraries Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries and any capital and special needs grants. The grants are distributed in accordance with policies and procedures established by LiRN's Board of Directors. The following page contains individual law library grants that were distributed by LiRN during 2021 and 2020.

Law Association	2021	2020
Algoma	\$139,346	\$148,240
Brant	103,516	110,123
Bruce	58,963	61,420
Carleton	583,647	678,659
Cochrane	51,222	53,356
Dufferin	49,126	51,173
Durham	154,685	169,136
Elgin	86,292	89,887
Essex	265,511	310,734
Frontenac	137,022	146,768
Grey	69,819	72,728
Haldimand	32,178	33,835
Halton	140,961	154,218
Hamilton	424,184	493,237
Hastings	89,431	93,157
Huron	80,016	83,350
Kenora	92,012	95,846
Kent	74,296	77,392
Lambton	80,177	84,518
Lanark	42,273	43,136
Leeds & Grenville	75,722	78,877
Lennox & Addington	28,628	29,212
Lincoln	180,333	196,014
Manitoulin	2,732	2,788

Law Association	2021	2020
Middlesex	342,345	399,075
Muskoka	68,044	71,879
Nipissing	90,906	94,694
Norfolk	74,319	78,416
Northumberland	87,634	91,285
Oxford	75,012	78,138
Parry Sound	47,324	48,290
Peel	280,846	326,565
Perth	57,772	61,179
Peterborough	136,928	145,668
Prescott & Russell	14,970	16,275
Rainy River	29,032	30,624
Renfrew	128,221	136,405
Simcoe	141,888	154,226
Stormont Dundas & Glengarry	81,792	85,200
Sudbury	185,201	205,779
Temiskaming	46,514	47,463
Thunder Bay	172,124	187,091
Toronto	555,571	646,013
Victoria-Haliburton	92,386	96,235
Waterloo	241,153	274,037
Welland	96,905	105,090
Wellington	79,861	83,189
York	224,434	255,043

TOTAL	\$6,393,274	\$7,075,663
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