

Upper Canada.
Newark. July 17th 1797.
37th George 3rd

Celebrating **225 Years**

to the directions of an Act, passed this
following Gentlemen assembled, at W
Day.
A.G.
Christopher Rob
Allan M. de
William D. Po
Alexander M
Nicholas Ha

Financial Statements 2022

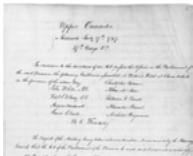


Law Society
of Ontario

Barreau
de l'Ontario

Celebrating 225 years of upholding the public interest

In 2022, we celebrated the 225th anniversary of the Law Society. This timeline notes a few of the many milestones that have shaped the legal professions in Ontario.



1797

The Law Society of Upper Canada was founded in Newark, now Niagara-on-the-Lake by 10 members of the Bar.



1855

Robert Sutherland was called to the Bar in Ontario. He was the first Black lawyer in Canada.



1889

Osgoode Hall Law School was created.



1895

A bill to allow women to become barristers was enacted. The first female lawyer in Ontario was called to the Bar in 1897.



1945

Kew Dock Yip, the first lawyer of East Asian heritage was called to the Bar. He was also the first East Asian lawyer called in Canada.



1950

The Law Society established a *pro bono* legal aid plan that evolved into the Ontario Legal Aid Plan in 1967, and into Legal Aid Ontario in 1998.



1975

Laura Legge was the first female bencher elected to the Law Society and in 1983, she became the first female Treasurer.



1979

Delia Opekow, was the first Indigenous woman called to the Bar in Ontario. A degree of Doctor of Laws, *honoris causa* (LLD) was bestowed to her in 2019.



Source: Law Society of Ontario, Archives Photographs by: John Evans Photography Ltd.

1988

Convocation's first public meeting was held. Subsequently, a policy of opening Convocation meetings to the public was formalized to increase transparency.



1997

In its 200th year, the Law Society committed to increased equity and diversity through adoption of the *Bicentennial Report on Equity in the Legal Profession*. The following year, the Law Society was gifted the Two Row Wampum Treaty Belt (the Kahswentha) by Grand Chief of Council of Awkwesane Michael Mitchell.



2007

The Law Society's mandate expanded to include the regulation of paralegals.



2014

The Law Society Tribunal, was formally established by the *Modernizing Regulation of the Legal Profession Act*, 2013.



2015

In response to the recommendations of the Truth and Reconciliation Commission, the Law Society publicly acknowledged its role in reconciliation with Indigenous Peoples.



2018

The Law Society of Upper Canada becomes the Law Society of Ontario.



Moving forward

The integration of technology and innovation in the legal professions is a priority to increase access to justice for Ontarians.



LAW SOCIETY OF ONTARIO

2022 ANNUAL REPORT

Financial Statements

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LAW SOCIETY OF ONTARIO 2022 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Ontario's ("Society") combined financial statements report expenses exceeding revenues by \$13.9 million for 2022 (2021 – revenues exceeded expenses by \$12.2 million), with an equivalent reduction in overall fund balances. While the Society's 2022 budget planned for an overall reduction of \$16.2 million in fund balances and the combined financial results are favourable compared to budget, it has been a challenging year for the lawyer pool of the Compensation Fund resulting in a notable decline in its fund balance.

Three factors beyond the Society's control negatively impacted the financial results for 2022 offset by operational efficiencies implemented by management, continued virtual and hybrid interactions, and other cost savings in 2022.

First, the Society was not immune to the global financial market volatility of 2022 and experienced notable unrealized losses on the portfolio investments of the General, Compensation and Errors & Omissions Insurance ("E&O") Funds totalling \$7.5 million (2021 – unrealized gains of \$6.2 million). Second, in 2022 the volume and dollar value of claims against the Compensation Fund increased, most notably in the lawyer pool of the Fund, resulting in the provision for unpaid grant expense of \$8.4 million exceeding budget by \$3.7 million. Third, the licensing process examination content was inappropriately accessed by some candidates compromising the integrity of the planned March 2022 examinations. To mitigate the impact on the other candidates and manage risk to the Society, a pivot back to in-person examination delivery was necessary to ensure the integrity of the licensing process. This shift led to \$3.3 million in unbudgeted licensing process costs within the General Funds partially funded by the Society's \$1.0 million budget contingency.

The Society's Lawyer and Paralegal General Funds, which account for the Society's program delivery and administrative activities, ended the year with combined expenses in excess of revenues of \$2.2 million (2021 – excess of revenues over expenses of \$9.0 million). The 2022 budget incorporated funding of \$6.4 million from the fund balance of the Lawyer General Fund along with \$1.2 million in funding from surplus investment income in the E&O Fund. Similarly, the 2022 budget planned for the utilization of \$1.1 million of the fund balance in the Paralegal General Fund to fund operations. The use of

fund balances is based on the Society's Fund Balance Management Policy and not-for-profit budgeting best practices.

The Society ended the year with a Lawyer General Fund balance of \$37.7 million and a Paralegal General Fund balance of \$2.2 million. In preparing the 2023 budget, the fund balance of the Lawyer General Fund was forecast to end the year above the maximum threshold under the Fund Balance Management Policy and through the budget cycle, Convocation committed combined General Fund balances of \$9.6 million for 2023 activities and to mitigate annual fee increases.

The Society's restricted funds are reporting combined excess of expenses over revenues of \$11.7 million in 2022 (2021 – excess of revenues over expenses of \$3.2 million), impacted by notable unrealized losses in the Compensation and E&O Funds' portfolio investments and a continuing increase in Compensation Fund claims activity in the lawyer pool of the Fund.

The lawyer pool of the Compensation Fund is reporting expenses in excess of revenues of \$9.4 million (2021 – excess of revenues over expenses of \$512,000). The 2022 budget reduced the Compensation Fund component of the annual fee for lawyers from \$86 to \$1 through the planned use of \$3.7 million of the fund balance available in the lawyer pool of the Compensation Fund. The Fund experienced unrealized losses on its portfolio investments of \$3.3 million and actual expense related to the provision for unpaid grants in the combined lawyer and paralegal pools of the Fund exceeding budget by \$3.7 million. The higher grant provision expense is driven mainly by inquiries and claims made against a few lawyers.

The E&O Fund is reporting excess of expenses over revenues of \$1.8 million (2021 – excess revenues over expenses of \$2.2 million) primarily from the decrease in fair value of its portfolio investments.

Statement of Revenues and Expenses & Change in Fund Balances

Revenues

Annual Fees

Total annual fee revenues are comparable to last year at \$90.9 million (2021 – \$90.7 million). The 2022 budget included an annual fee reduction of \$60 for lawyers and \$9 for paralegals with the impact of reduced fees offset by an increase in the number of licensees practising or working.

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 decreased to \$111.1 million in 2022 (2021 – \$113.7 million). Real estate transaction volumes declined leading to a decrease in transaction levies of \$4.1 million, a 12% decrease from 2021. The reduction in transaction levy revenues was offset by an increase in the number of insured lawyers in 2022. The base premium for professional liability insurance coverage for Ontario lawyers was \$3,000, unchanged from 2021.

Professional Development and Competence ("PD&C")

PD&C revenues comprise licensing process and continuing professional development fees. Total PD&C revenue decreased this year to \$21.7 million (2021 – \$22.6 million).

Licensing Process revenue from lawyer candidates (\$11.7 million) and paralegal candidates (\$2.5 million) decreased by \$1.1 million from 2021 as the 2022 budget planned for a \$1.4 million reduction in revenue. In February 2021, Convocation approved the shift from in-person to online examination delivery, with the expectation of reduced expenses. As the Licensing Process operates on a cost-recovery model, for the 2022-23 licensing cycle, examination fees for lawyer candidates decreased by \$100 for each of the Barrister and Solicitor examinations, and for paralegal candidates by \$50. Study material fees were reduced by \$50 for both lawyer and paralegal candidates. The reduction in revenue from lower fees was partially offset by an increase in the number of candidates writing examinations in 2022.

Total Continuing Professional Development ("CPD") revenue increased over the prior year to \$7.5 million (2021 – \$7.3 million) and exceeded budget expectations. CPD programming continued to be delivered primarily in a virtual format in 2022, with the revenue increase attributable to increased registrations. CPD revenue is trending upwards toward pre-pandemic levels. For 2023, in addition to the virtual delivery model, several CPD programs will see a return to in-person and hybrid programming, including the larger Summit programs. The Society will continue to monitor registrant choices related to delivery modality, to inform future CPD program planning.

Investment Income and Change in Fair Value of Investments

Investment returns, in particular unrealized changes in the fair value of the investments, were negatively impacted in 2022 by the volatility in the financial markets. While realized investment income was relatively static at \$2.2 million (2021 – \$2.1 million), the Society's investment portfolios experienced in year unrealized losses of \$7.5 million (2021 –

unrealized gains of \$6.2 million). Of the total unrealized losses, \$1.9 million pertains to the General Funds, \$3.6 million is related to the Compensation Fund, with the remaining \$2.0 million specific to the E&O Fund. The Society does not budget for the change in fair value of investments as it is unpredictable. In a year of unrealized losses, there is a negative impact on the financial results for the year and on the fund balances of the three Funds.

Other Revenue

Other revenue of \$7.5 million (2021 – \$6.7 million) primarily comprises income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries. Revenue related to ordered costs varies year to year and in 2022, recoveries in the Compensation Fund were higher than the prior year and budget.

Expenses

Expenses of the Lawyer and Paralegal General Funds focus on operations and were \$107.0 million (2021 – \$97.9 million). The 2022 budget planned for a return to normal operations from increased licensee and stakeholder interactions to the resumption of in-person activities, while incorporating process and digitization efficiencies, resulting in a budget of \$113.2 million for operations. Expenses in the General Funds were less than budget primarily related to lower building operations, meeting, event and travel costs in the first quarter of 2022 because of government restrictions in response to the COVID-19 Omicron variant, the continuation of some meetings and events in a virtual or hybrid modality, lower professional regular counsel fee costs, and a highly competitive labour market for employers impacting recruitment and retention.

In 2022, the Society incurred significant unbudgeted expenses to address the inappropriate access to examination content by some candidates, and to ensure the integrity of the licensing process, with Convocation approving use of the 2022 budgeted contingency to offset some of the expenses.

Professional Regulation, Tribunals and Compliance

Total regulatory expenses increased to \$32.3 million (2021 – \$31.1 million) but were less than budget. The variance from budget was driven by lower counsel fees as the number of matters with external counsel declined, reduced paper document reproduction costs with an increasing shift to electronic retention, and savings related to adjudicator and employee travel with some continued virtual activities.

Professional Development and Competence (“PD&C”)

Total PD&C expenses have increased to \$31.3 million (2021 – \$26.4 million) and were also higher than budget. The improper access by some candidates to examination content compromised the integrity of the planned March 2022 examinations. To mitigate the impact on candidates not involved in the improper conduct and to manage reputational risk to the organization, the Law Society returned to in-person examinations effective April 2022. This resulted in unbudgeted costs in the lawyer and paralegal licensing process of \$2.7 million and \$600,000, respectively. The 2023 budget for the licensing process is based on the continuation of an in-person examination delivery model.

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 \$29.9 million (2021 – \$28.5 million) and in line with budget. Contributing to the increased costs over the prior year were legal and expert advisory costs to manage Ontario Line developments, legal costs associated with the licensing process examination content breach, and the increasing cost of information technology cloud service subscriptions and licences.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including bench-related expenses, increased to \$7.7 million (2021 – \$6.4 million) but were less than budget. The 2022 budget assumed a return to in-person activities and stakeholder events. With pandemic restrictions in the first quarter of 2022, meetings and events gradually resumed from April onward. The delay, coupled with stakeholder engagement events and meetings of Convocation and Committees also resuming in hybrid format rather than only in-person, have resulted in costs lower than budgeted. With the resumption of in-person meetings, there was an increase in bench remuneration, expense reimbursement and function costs in comparison to the prior year.

Services to Licensees and Public

Services to licensees and the public increased to \$5.9 million (2021 – \$5.5 million) but were less than budget. The increase from the prior year was primarily due to the resumption of in-person conferences by the Federation of Ontario Law Associations in the second half of 2022 and a budgeted increase in the support provided by the Society to the Canadian Legal Information Institute (CanLII).

Changes in Fund Balances

General Fund

The Lawyer General Fund experienced excess of expenses over revenues for the year of \$1.7 million and net interfund transfers of \$1.1 million leading to a decrease in the fund balance to \$37.7 million. Convocation's Fund Balance Management Policy ("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 \$18.0 million and \$26.9 million based on 2023 budgeted expenses. As the fund balance of the Lawyer General Fund was projected to exceed the maximum benchmark under the Policy, the Society, as part of the 2023 budget cycle, committed \$9.1 million of the fund balance; \$4 million to fund operations, \$3.5 million to support the Business and Technology Transformation Initiative (the "Transformation") and a \$1.6 million loan to the Capital Allocation Fund, all to mitigate the impact on annual fees.

The Paralegal General Fund ended the year with expenses exceeding revenues by \$513,000 and the fund balance decreased to \$2.2 million. The Society's 2023 budget planned for the use of \$500,000 of this fund balance to mitigate the paralegal annual fee increase.

Restricted Funds

In 2022, the excess of expenses over revenues for the year in the lawyer pool of the Compensation Fund was \$9.4 million, decreasing the fund balance to \$21.7 million. The decrease in the fund balance of the lawyer pool of the Compensation Fund was driven by three factors — two unforeseen circumstances and one planned through the 2022 budget. First, the volatility of the financial markets in 2022 caused an unbudgeted decline in the fair market value of investments, resulting in unrealized losses of \$3.3 million. Second, the provision for unpaid grants expense exceeded the budget by \$3.9 million as a result of increased activity and claims related to a small number of lawyers. Lastly, the 2022 budget planned for the use of \$3.7 million of the fund balance to allow for the reduction in the Compensation Fund component of the annual fee from \$86 to \$1 for lawyers.

Under the current Policy, the minimum and maximum fund balance benchmarks for the lawyer pool of the Compensation Fund are \$19.6 million and \$96.3 million. The 2022 year-end fund balance of \$21.7 million is only \$2.1 million above the minimum benchmark. Another year of heightened claims activity or continued financial market volatility leading to further unrealized losses may result in the fund balance for the lawyer pool of the Compensation Fund dropping below the minimum benchmark in 2023.

In 2022, the fund balance for the paralegal pool of the Compensation Fund decreased to \$746,000 as expenses exceeded revenues for the year by \$218,000. The decline was mainly the result of unrealized investment losses of \$228,000.

The E&O Fund balance decreased from \$57.6 million at the end of 2021 to \$44.8 million at the end of 2022. The decrease is attributed to expenses exceeding revenues by \$1.8 million, predominantly due to unrealized losses on portfolio investments and Convocation-approved interfund transfers to other Society Funds totalling \$11.0 million. Based on the 2022 approved budget, these financial statements reflect the following interfund transfers: accumulated investment income surplus to the Fund of \$1.2 million to the Lawyer General Fund to fund operations, \$728,500 to the County Libraries Fund to support the 2022 transitional budget of LiRN Inc., and \$500,000 to the Capital Allocation Fund for the Transformation. In April 2022, Convocation approved an \$8.6 million interfund transfer from the E&O Fund to the Capital Allocation Fund to fund the Transformation.

The Capital Allocation Fund includes a total of \$9.1 million that is internally restricted for the Transformation and contributed to the overall increase in the fund balance to \$15.2 million. Use of the internally restricted fund balance for the Transformation will commence in 2023.

Statement of Financial Position

Portfolio Investments

Portfolio investments are shown at fair value of \$78.2 million (2021 – \$84.6 million). The decline is attributable to the decrease in the fair market value of the portfolio investments slightly offset by the reinvestment of investment income. Of the total portfolio investments, \$19.3 million pertains to the General Funds, \$37.1 million pertains to the Compensation Fund, and \$21.8 million pertains to the E&O Fund.

Loan Receivable

In 2018, the Society contributed to a subordinated syndicated loan with all other Canadian law societies to fund CanLII's purchase of all the shares of Lexum Informatique Juridique Inc. ("Lexum"). Lexum is a software company that operates online legal information delivery products primarily for CanLII. The amount of the loan is \$1.7 million (2021 – \$1.7 million) and matured in 2023. It was reclassified as a current asset at the end of 2022 as repayment is expected within the upcoming year.

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 decreased to \$6.7 million (2021 – \$7.0 million). The decrease is primarily due to the reduction in candidate licensing process fees for 2022.

Due to LAWPRO

Under a services agreement, LAWPRO administers the operations of the E&O Fund on behalf of the Society. At the end of 2022, the amount due to LAWPRO increased to \$11.5 million (2021 – \$6.8 million) primarily due to the timing of the transfer of premiums collected in 2022 from lawyers for 2023 professional liability insurance coverage. LAWPRO prepares their financial statements under International Financial Reporting Standards (“IFRS”) and is implementing the new IFRS 17 standard. To facilitate implementation of IFRS 17, the E&O Fund now only transfers premiums collected for professional liability insurance coverage of the following year in the subsequent year. This is a change from the historical practice of transferring premiums when collected rather than based on the coverage period.

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants increased to \$27.8 million (2021 – \$20.8 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 the lawyer pool of the Compensation Fund.

Conclusion

The Society has managed to navigate a year of unpredictable challenges with volatility in its portfolio investments, increased claims activity in the Compensation Fund and the compromising of examination content by some candidates. By maintaining strong fund balances and prudent management of operations, the Society was able to weather these events and move forward with Convocation-approved initiatives such as commence the Transformation to modernize processes and systems, implement the Regulatory Sandbox, and fund LiRN's transitional budget to expand the suite of electronic legal information resources available through the county libraries across Ontario.

The outlook for the upcoming year is one of uncertainty. The financial markets remain volatile with the most recent global banking crisis, and the Compensation Fund continues to experience higher than average claims activity requiring close oversight in the coming year.

Despite the uncertainty, the Society continues to be in a financially sound position with its Fund Balance Management policies mitigating the impact of unforeseen circumstances

such as those experienced this year. With strong fund balances, the Society is positioned for 2023 to fulfill its important regulatory work in the public interest as well as move forward with Convocation policy decisions such as the implementation of the Practice Essentials Course and Experiential Training Enhancements, and to continue with investments in its transformation to evolve operations and regulatory processes.



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, 2022 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, 2022;
- the statement of revenues and expenses 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.

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

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



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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 27, 2023

LAW SOCIETY OF ONTARIO

Statement of Financial Position

Stated in thousands of dollars

As at December 31

2022

2021

Assets

Current Assets

Cash (note 10)	34,211	37,317
Short-term investments	23,083	15,794
Accounts receivable (notes 4 and 9)	14,210	14,388
Prepaid expenses	2,943	2,498
Loan receivable (note 7)	1,701	-
Total current assets	76,148	69,997
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	78,153	84,552
Loan receivable (note 7)	-	1,701
Capital assets (note 8)	7,611	6,655
Intangible assets (note 8)	3,003	2,667
Total Assets	200,557	201,214

Liabilities and Fund Balances

Current Liabilities

Accounts payable and accrued liabilities (notes 5 and 9)	11,642	10,330
Deferred revenue	6,676	7,039
Due to LAWPRO (note 4)	11,460	6,827
Total current liabilities	29,778	24,196
Provision for unpaid grants/claims	27,778	20,769
Unclaimed trust funds (note 10)	7,801	7,109
Lease obligations	781	798
Total Liabilities	66,138	52,872

Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)

Fund Balances

General funds

Lawyers	37,746	38,333
Paralegals	2,162	2,685

Restricted funds (note 19)

Compensation - lawyers	21,705	31,055
Compensation - paralegals	746	964
Errors and omissions insurance	44,785	57,577
Capital allocation	15,191	7,123
Invested in capital and intangible assets	10,614	9,322
County libraries	177	117
Other	1,293	1,166

Total Fund Balances 134,419 148,342

Total Liabilities and Fund Balances 200,557 201,214

The accompanying notes are an integral part of these financial statements

On behalf of Convocation



Treasurer



Chair, Audit and 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

	2022	2021	2022	2021	2022	2021	2022	2021
	General Fund Lawyer		General Fund Paralegal		Restricted Funds (note 19)		Total	
Revenues								
Annual fees	72,489	69,755	6,064	5,694	12,364	15,225	90,917	90,674
Insurance premiums and levies	-	-	-	-	111,077	113,716	111,077	113,716
Professional development and competence	18,347	19,301	3,357	3,329	-	-	21,704	22,630
Investment income	908	639	115	72	1,142	1,383	2,165	2,094
Change in fair value of investments	(1,671)	1,628	(248)	205	(5,583)	4,401	(7,502)	6,234
Other (note 12)	4,848	5,596	622	655	2,023	462	7,493	6,713
Total revenues	94,921	96,919	9,910	9,955	121,023	135,187	225,854	242,061
Expenses								
Professional regulation, tribunals and compliance	30,501	29,386	1,762	1,717	-	-	32,263	31,103
Professional development and competence	27,159	23,263	4,145	3,103	-	-	31,304	26,366
Corporate services	26,497	25,291	3,377	3,199	-	-	29,874	28,490
Convocation, policy and outreach (note 13)	6,952	5,832	736	607	-	-	7,688	6,439
Services to licensees and public	5,495	5,036	403	466	-	-	5,898	5,502
Restricted (note 19)	-	-	-	-	132,750	131,959	132,750	131,959
Total expenses	96,604	88,808	10,423	9,092	132,750	131,959	239,777	229,859
Excess of (expenses over revenues) / revenues over expenses	(1,683)	8,111	(513)	863	(11,727)	3,228	(13,923)	12,202
Fund balances, beginning of year	38,333	30,301	2,685	1,832	107,324	104,007	148,342	136,140
Interfund transfers (notes 2 and 14)	1,096	(79)	(10)	(10)	(1,086)	89	-	-
Fund balances, end of year	37,746	38,333	2,162	2,685	94,511	107,324	134,419	148,342

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

	2022	2021
Net inflow (outflow) of cash related to the following activities		
Operating		
Excess of (expenses over revenues) / revenues over expenses	(13,923)	12,202
Items not affecting cash:		
Amortization of capital assets	1,307	1,813
Amortization of intangible assets	1,406	1,252
Loss on disposal of capital and intangible assets	25	-
Unrealized losses (gains) on investments	7,502	(6,234)
Reinvested investment income	(1,392)	(1,972)
Lease obligations	(17)	42
Net change in non-cash operating items:		
Accounts receivable	178	(1,130)
Prepaid expenses	(445)	9
Accounts payable and accrued liabilities	1,312	1,205
Provision for unpaid grants/claims	7,009	3,916
Due (to)/from LAWPRO	4,633	(937)
Deferred revenue	(363)	1,295
Fund contribution - unclaimed trusts	692	1,034
Cash from operating activities	7,924	12,495
Investing		
Purchase of portfolio investments	-	(5,000)
Proceeds from disposal of portfolio investments	-	310
Loan receivable	-	(274)
Purchase of short-term investments	(7,000)	-
Capital asset and intangible asset additions	(4,030)	(1,839)
Cash used in investing activities	(11,030)	(6,803)
Net inflow (outflow) of cash, during the year	(3,106)	5,692
Cash, beginning of year	37,317	31,625
Cash, end of year	34,211	37,317

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Notes to Financial Statements, December 31, 2022

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, 2022, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 57,600 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 years.

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, 2022, the Lawyer General Fund balance was \$37,746,000 (2021 – \$38,333,000).

The Lawyer General Fund balance as of December 31, 2022 exceeds three months of budgeted Lawyer General Fund expenses. The 2023 budget plans for the use of \$4,000,000 of the Lawyer General Fund balance to mitigate the Lawyer General Fund component of the annual fee in 2023. A loan of \$1,600,000 from the Lawyer General Fund to the Capital Allocation Fund restricted for the purpose of essential Bencher Wing infrastructure repairs and restoration, is incorporated in the 2023 budget. The loan allows for sufficient fund balance to be earmarked for the completion of the Bencher

Wing restoration as one tendered contract to realize savings through contractor efficiencies, rather than completing over two years as separate phases as originally planned.

Coinciding with the approval of the 2023 budget, Convocation also approved an interfund transfer of \$3,500,000 from the Lawyer General Fund to the Capital Allocation Fund to fund the Business and Technology Transformation Initiative.

As at December 31, 2022, the Paralegal General Fund balance was \$2,162,000 (2021 – \$2,685,000).

The 2023 budget plans for the use of \$500,000 of the Paralegal General Fund balance to mitigate the Paralegal General Fund component of the annual fee in 2023.

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, 2022, the lawyer pool of the Compensation Fund balance was \$21,705,000 (2021 – \$31,055,000) 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)	2022	2021
Cash and short-term investments	11,930	12,978
Accounts receivable	1,331	-
Portfolio investments	37,027	39,932
Total assets	50,288	52,910
Accounts payable and accrued liabilities	59	122
Provision for unpaid grants – lawyers	27,424	20,398
Provision for unpaid grants – paralegals	354	371
Total liabilities	27,837	20,891
Fund balance – lawyers	21,705	31,055
Fund balance – paralegals	746	964
Total liabilities and fund balances	50,288	52,910

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. Effective January 1, 2022, a portion of the fund balance serves as a backstop for potential self-insured corporate errors and omissions claims.

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, 2022, the E&O Fund balance was \$44,785,000 (2021 – \$57,577,000). The fund balance comprises:

(\$000s)	2022	2021
Investment in LAWPRO	35,642	35,642
Other	9,143	21,935
Total fund balance	44,785	57,577

Convocation approved transfers totalling \$11,029,000 from the E&O Fund to other Funds in 2022. Further details on these transfers are included in Note 14 – Interfund Transfers.

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, 2022, the fund balance was \$15,191,000 (2021 – \$7,123,000). Within the Capital Allocation Fund, \$9,100,000 is internally restricted by Convocation for the purpose of the Business and Technology Transformation Initiative.

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, 2022, the balance was \$10,614,000 (2021 – \$9,322,000), 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, 2022 was \$177,000 (2021 – \$117,000).

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, 2022, the fund balance was \$134,000 (2021 – \$75,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 2022 was \$792,000 (2021 – \$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, amongst other criteria, 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, 2022, the fund balance was \$367,000 (2021 – \$313,000).

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 10 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 \$18,866,000 (2021 – \$21,025,000).

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 \$108,415,000 (2021 – \$107,576,000). 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 \$14,210,000 (2021 – \$14,388,000). 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 statement of financial position 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 4.39% (2021 – 1.31%).

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 voluntarily contributing time on 26 unique calendar days. 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:

	2022	2021
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)	2022	2021
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)	2022	2021
Total assets	772,671	819,329
Total liabilities	511,240	533,548
Total shareholders equity	261,431	285,781
Total liabilities and shareholders equity	772,671	819,239

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

(\$000s)	2022	2021
Revenue	106,500	132,165
Expenses	116,700	129,651
Profit (loss) before taxes	(10,200)	2,514
Income tax expense (recovery)	(2,972)	333
Profit (loss)	(7,228)	2,181
Other comprehensive income (loss) net of tax	(17,122)	14,030
Comprehensive income (loss)	(24,350)	16,211

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

(\$000s)	2022	2021
Net cash inflow from operating activities	4,634	13,500
Net cash inflow from investing activities	7,055	3,629
Net cash outflow from financing activities	(421)	(404)
Cash and cash equivalents, beginning of year	24,473	7,748
Cash and cash equivalents, end of year	35,741	24,473

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 \$111,077,000 (2021 – \$113,716,000) for premiums during the year. LAWPRO contributed \$575,000 to the Society towards directors' fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees (2021 – \$560,000). 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 \$11,460,000 (2021 – \$6,827,000). 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)	2022	2021
Total assets	1,041	788
Total liabilities	179	92
Total share capital and fund balances	862	696
Total liabilities, share capital and fund balances	1,041	788

Summarized statement of revenues and expenses for LiRN for the year ended December 31:

(\$000s)	2022	2021
Total revenues	9,290	7,221
Total expenses	9,123	7,559
Excess of revenues over expenses / (Excess of expenses over revenue)	167	(338)

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

(\$000s)	2022	2021
Net cash (outflow) inflow from operating activities	239	(306)
Cash, beginning of year	728	1,034
Cash, end of year	967	728

The Society provided LiRN with a grant of \$9,270,000 (2021 – \$7,217,000) 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 2022 was \$26,000 (2021 – \$52,000). 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 \$1,000 (2021 – \$8,000).

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 \$4,000 (2021 – \$nil).

6. Portfolio Investments

(\$000s)	2022	2021
Debt securities	49,420	52,764
Canadian equities	9,867	10,763
Global equities	18,866	21,025
Total portfolio investments	78,153	84,552

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

	2022	2021
Effective interest rates (%)	3.2 – 11.5	0.2 – 4.3
Maturity dates (years)	1 – 10	1 – 7

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 and three installments of balance of sale payments totalling \$823,000 from 2019 to 2021. This loan has an annual interest rate of 4.74%, compounded semi-annually. The loan matured on February 23, 2023 and is classified as a current asset as full repayment is expected in 2023. Interest will continue to accrue at the same annual rate until the loan is repaid.

8. Capital Assets and Intangible Assets

Capital Assets (\$000s)	2022			2021
	Cost	Accumulated amortization	Net	Net
Land and buildings	25,395	25,395	-	-
Building and leasehold improvements	30,725	23,764	6,961	6,230
Furniture, equipment and computer hardware	2,922	2,272	650	425
Total capital assets	59,042	51,431	7,611	6,655

	2022			2021
	Cost	Accumulated amortization	Net	Net
Computer applications and software	12,028	9,025	3,003	2,667
Total intangible assets	12,028	9,025	3,003	2,667

In 2022, the Society received a Notice of Possession under the *Expropriations Act* (R.R.O. 1990, Reg. 363) advising that title to a portion of its land, located at the northeast corner of Queen Street West and University Avenue in Toronto, had vested in Metrolinx for the purpose of constructing the Ontario Line subway. Metrolinx took possession of the designated portion of land on November 30, 2022. Compensation to the Society from Metrolinx for the expropriated land remains to be determined and cannot be estimated at this time.

9. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts receivable, accounts payable and accrued liabilities is \$935,305 due from government remittances, primarily sales taxes (2021 – \$500,228).

The accounts receivable balance comprises:

(\$000s)	2022	2021
Accounts receivable	46,719	41,602
Allowance for doubtful accounts	32,509	27,214
Accounts receivable – net	14,210	14,388

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 interest income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$7,801,000 (2021 – \$7,109,000).

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, 2022, total funds held in trust amount to \$3,639,000 (2021 – \$3,525,000).

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 \$606,000 (2021 – \$601,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was \$130,000 (2021 – \$4,000). The Treasurer's honorarium expense for the year was \$224,000 (2021 – \$210,000).

14. Interfund Transfers

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

- \$9,100,000 from the E&O Fund to the Capital Allocation Fund restricted to fund the Business and Technology Transformation Initiative approved by Convocation in April 2022;
- \$4,040,000 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;
- \$1,200,000 from the E&O Fund to the Lawyer General Fund as provided for in the 2022 budget representing accumulated investment income, surplus to the needs of the E&O Fund;
- \$728,500 from the E&O Fund to the County Libraries Fund as provided for in the 2022 budget to support the transitional budget of LiRN Inc.
- \$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2022 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 benchers election;
- \$14,000 from the Special Projects Fund to the Lawyer General Fund related to the update of the facilities condition assessment, policy consultation and program development.

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 2022 amounted to \$2,989,540 (2021 – \$2,952,752).

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:

2023	\$2,580,000
2024	\$2,697,000
2025	\$2,813,000
2026	\$2,906,000
2027	\$2,906,000
Thereafter	\$484,000
Total	<u>\$14,386,000</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 \$160,000 for 2023 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. Comparative Figures

Certain of the prior year balances have been reclassified to conform to the current year's presentation.

19. Restricted Funds

A schedule of Restricted Funds is set out below.

Stated in thousands of dollars

As at December 31

As at December 31

	2022							2021	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total	Total
	Lawyer	Paralegal							
Fund balances, beginning of year	31,055	964	57,577	7,123	9,322	117	1,166	107,324	104,007
Revenues									
Annual fees	85	7	-	3,520	-	8,602	150	12,364	15,225
Insurance premiums and levies	-	-	111,077	-	-	-	-	111,077	113,716
Investment income	852	45	245	-	-	-	-	1,142	1,383
Change in fair value of investments	(3,347)	(228)	(2,008)	-	-	-	-	(5,583)	4,401
Other	2,023	-	-	-	-	-	-	2,023	462
Total revenues	(387)	(176)	109,314	3,520	-	8,602	150	121,023	135,187
Total expenses	8,963	42	111,077	522	2,738	9,271	137	132,750	131,959
Excess of (expenses over revenues) / revenues over expenses	(9,350)	(218)	(1,763)	2,998	(2,738)	(669)	13	(11,727)	3,228
Interfund transfers	-	-	(11,029)	5,070	4,030	729	114	(1,086)	89
Fund balances, end of year	21,705	746	44,785	15,191	10,614	177	1,293	94,511	107,324



Law Society
of Ontario

Barreau
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