



Law Society
of Ontario

Barreau
de l'Ontario

Financial Statements

2020

LAW SOCIETY OF ONTARIO
2020 Annual Financial Statements

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LAW SOCIETY OF ONTARIO

2020 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, are reporting combined revenues in excess of expenses of \$4.1 million (2019 - \$836,000 excess of expenses over revenues). To reduce annual fees for licensees, the 2020 budget incorporated funding of \$5.1 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 2020 budget planned for utilization of \$2.4 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 did not use these sources of funding in 2020 despite experiencing a decrease in revenues as it proactively introduced expenditure containment measures in response to the COVID-19 pandemic.

The Society's restricted funds are reporting combined excess of revenues over expenses of \$10.9 million in 2020 (2019 - \$8.4 million) with the lawyer pool of the Compensation Fund experiencing revenues in excess of expenses of \$8.7 million (2019 - \$10.1 million). In response to unusually high claims arising prior to 2017 against the lawyer pool of the Compensation Fund, which led to the decline of the fund balance below the Fund Balance Management Policy minimum threshold, the Society implemented a three-year plan from 2018 to 2020 to replenish the Fund and restore its financial stability. As part of the three-year replenishment plan, the annual fee for the lawyer pool of the Compensation Fund was set with the objective of increasing the fund balance by an additional \$5 million in each of the three years. As at the end of 2020, this plan, coupled with claims returning to a more normal level, has resulted in the fund balance increasing to \$30.5 million, which is above the minimum permissible threshold under the Society's Fund Balance Management Policy.

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

The Society implemented a number of different initiatives to assist licensees in addressing the challenges of the COVID-19 pandemic in 2020 and beyond. These include the deferral of withdrawals for those licensees on the Society's monthly pre-authorized payment plan for annual fees and the delay of administrative late fees and suspension for those licensees who had not complied with annual fee and filing obligations.

Annual Fees

With an annual fee reduction of \$135 for lawyers and \$109 for paralegals approved in the 2020 budget, total annual fee revenues have decreased to \$95.3 million (2019 - \$99.3 million). The reduction in annual fees was partially offset by an increase in the number of licensees billed in 2020 although the rate of growth in the number of full-fee-paying-equivalent paralegals has continued to slow over the last several years.

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 slightly to \$101.8 million in 2020 (2019 - \$102.8 million). The base premium for professional liability insurance coverage for Ontario lawyers remained unchanged at \$2,950 in 2020. The overall reduction in revenue is attributable to a decline in transaction levies partially offset by an increase in the number of lawyers obtaining insurance coverage.

Professional Development & Competence ("PD&C")

PD&C revenue comprises licensing process and continuing professional development fees. With COVID-19 restrictions on large gathering and physical distancing requirements, total PD&C revenue decreased this year to \$20.0 million (2019 - \$23.1 million).

Licensing Process revenue from lawyer (\$11.6 million) and paralegal candidates (\$2.2 million) has decreased by \$1.1 million from 2019. The underlying licensing process fees charged to candidates were unchanged, but several factors drove the decrease in revenue. Among these was an increase in the number of candidates deferring their examinations to the following year. COVID-19 restrictions resulted in a reduction in the number of articling positions contributing to a decline in articling fee revenue from the prior year. In addition, with large gathering restrictions, the Society was not able to hold the ceremonial component of the Call to the Bar for lawyer candidates and reduced fees accordingly, resulting in a reduction in the Call to the Bar fee revenues.

Total Continuing Professional Development ("CPD") revenue decreased to \$6.3 million (2019 - \$8.2 million). Revenues from CPD were adversely impacted by COVID-19 as all in-person programming was cancelled effective March 2020. The Society provided several complimentary CPD webinars to support licensees during the pandemic and opened the CPD archives to allow licensees to watch these programs free of charge while still meeting their CPD requirements. The Society mitigated revenue declines in the second half of the year by delivering programming through alternate delivery methods including on-demand webinars, audio recordings, live webcasts and pivoting program delivery to reflect emerging topics as a result of the pandemic.

Investment Income and Change in Fair Value of Investments

There was significant financial market volatility in 2020, resulting in lower investment returns of \$3.9 million (2019 - \$4.9 million). Increases in the market value of Canadian equities resulted in unrealized gains of \$1.7 million for the year (2019 - \$2.6 million unrealized gains) while lower interest rates led to a reduction in investment income to \$2.2 million (2019 - \$2.3 million).

Other Revenue

Other revenue of \$7.5 million (2019 - \$8.4 million) primarily comprises income from *Ontario Reports* royalties, administrative fees, regulatory compliance ordered cost recoveries, and catering sales. The decrease from 2019 is primarily due to a decline in catering revenue. All restaurant and catering operations were closed in mid-March 2020 through to the end of the year because of the COVID-19 related restrictions.

Expenses

The Society proactively addressed the uncertainties associated with the COVID-19 pandemic through cost containment measures that cut across the organization. In 2020, the decrease in expenditures are as a result of intentional staffing cost reductions and lower operating expenses due to the impact of COVID-19 on aspects of operations.

Professional Regulation, Tribunals and Compliance

Total regulatory expenses increased slightly to \$30.7 million (2019 - \$30.5 million) but were less than budget. The variance from budget was driven by staff vacancies and the circumstantial impact of work at home protocols that produced savings in travel, office and document reproduction costs.

Professional Development and Competence

Total PD&C expenses have decreased to \$26.8 million (2019 - \$30.8 million).

With CPD revenue declining due to the cancellation of large flagship summits and in-person programming, costs related to hosting these large programs including venue rental, catering, audio-visual and contract staffing to administer in-person programming were also eliminated. As a result, CPD expenses were reduced to \$3.3 million (2019 - \$4.2 million) coinciding with the reduction in CPD revenues during the year.

Lawyer and paralegal licensing examination costs were reduced to \$10.6 million (2019 - \$13.2 million). The decrease in the examination costs were the combination of lower numbers of candidates writing examinations in the current year reducing revenue and a transition to online examinations from in-person as a result of COVID-19. The lower examination costs were partially offset by online implementation expenses in 2020, with further spending on infrastructure and technology requirements anticipated in the next few years.

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 \$27.6 million (2019 – \$33.9 million). The decrease was primarily due to a legal matter that was settled in the prior year and for which the Society is actively pursuing recovery through its insurer.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including bencher related expenses, decreased to \$6.0 million (2019 – \$8.8 million).

With COVID-19 restrictions, all Committee and Convocation meetings moved from in-person to virtual from March 16, 2020 through to the end of the year. This reduced bencher related travel time impacting the associated remuneration and expense reimbursements as well as catering costs. In addition, bencher remuneration was also reduced with Convocation's decision to not claim for governance work occurring from April 9, 2020 to June 30, 2020. Bencher and Convocation related expenses declined to \$932,000 (2019 - \$2.2 million). Similarly, the restrictions resulted in stakeholder engagement shifting to virtual platforms with reductions in related expenses.

Changes in Fund Balances

General Fund

The excess of revenues over expenses for the year of \$4.1 million led to an increase in the fund balance of the Lawyer General Fund to \$30.3 million. Convocation's Fund Balance Management Policy establishes minimum and maximum benchmarks of two and three months of operating expenses, respectively, to be maintained as the Lawyer General Fund balance; a balance between \$17 million and \$26 million. As the fund balance of the Lawyer General Fund was projected to exceed three months of budgeted General Fund expenses, the Society has budgeted to use \$6.2 million of the fund balance in 2021 to reduce the lawyer annual fee.

Revenues in excess of expenses for the year of \$8,000 led to the fund balance of the Paralegal General Fund remaining at \$1.8 million.

Restricted Funds

In 2020, the excess of revenues over expenses for the year in the lawyer pool of the Compensation Fund amounted to \$8.7 million, increasing the fund balance for lawyers to \$30.5 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 2020 year was the final year of a three-year plan to restore the fund balance with it now above the minimum fund balance threshold of \$19.6 million.

In 2020, the Compensation Fund balance for paralegals increased slightly to \$959,000 after revenues in excess of expenses for the year of \$11,000.

The E&O Fund balance increased slightly to \$55.4 million after revenues in excess of expenses for the year of \$941,000. The transfer of \$1.2 million from the E&O Fund to the Lawyer General Fund approved in the 2020 budget was not executed due to the favourable operating results in the Lawyer General Fund.

Balance Sheet

Portfolio Investments

Portfolio investments are shown at fair value of \$69.7 million (2019 – \$63.8 million). Portfolio investments have increased because of total unrealized gains and investment income. Investments comprise Canadian equities (30%) and Canadian fixed income instruments (70%).

Deferred Revenue

Deferred revenue relates primarily to licensee annual fees, insurance premiums and licensing process fees collected prior to December 31 relating to fees for the subsequent fiscal year. Deferred revenue decreased to \$5.7 million (2019 - \$16.0 million). This decrease is primarily due to the change in the timing of the issuance of licensee annual fee invoices from the December prior to the year being billed for to the January of the given year. This change was made to align with decisions made by Convocation in 2020, which take effect in 2021, to harmonize the date for licensees to fulfill their administrative requirements by March 31. Annual fees were payable by March 1 in 2020.

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants decreased to \$16.9 million (2019 – \$17.4 million). The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims against the Compensation Fund, supplemented by the costs for processing these claims. The slight decrease in this liability in the current year is a reflection of normal Compensation Fund operations.

Conclusion

Despite the challenges faced by the Society in 2020 due to the COVID-19 pandemic, the Society is in a financially sound position, is in compliance with its fund balance management policies and is well placed for the future. In 2020, the Society implemented initiatives to assist licensees and reduce the overall cost of its operations. Looking forward to 2021, these initiatives, including the 2021 Annual Fee COVID-19 Deferral Option, will assist licensees dealing with the burdens of the COVID-19 pandemic.



Independent auditor's report

To the Members of Law Society of Ontario

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Law Society of Ontario (the Society) as at December 31, 2020 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 Society's financial statements comprise:

- the balance sheet as at December 31, 2020;
- 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 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 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 Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 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 22, 2021

LAW SOCIETY OF ONTARIO

Balance Sheet

Stated in thousands of dollars

As at December 31

| | 2020 | 2019 |
|---|----------------|----------------|
| Assets | | |
| Current Assets | | |
| Cash (note 10) | 31,625 | 34,863 |
| Short-term investments | 17,740 | 19,709 |
| Accounts receivable (notes 4, 5, and 9) | 13,258 | 11,967 |
| Prepaid expenses | 2,507 | 3,134 |
| Total current assets | 65,130 | 69,673 |
| Investment in subsidiaries (note 4) | 35,642 | 35,642 |
| Portfolio investments (note 6) | 69,711 | 63,821 |
| Loan receivable (note 7) | 1,427 | 1,162 |
| Capital assets (note 8) | 7,727 | 8,651 |
| Intangible assets (note 8) | 2,821 | 3,127 |
| Total Assets | 182,458 | 182,076 |
| Liabilities and Fund Balances | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (notes 5 and 9) | 9,126 | 13,906 |
| Deferred revenue | 5,744 | 16,031 |
| Due to LAWPRO (note 4) | 7,764 | 7,354 |
| Total current liabilities | 22,634 | 37,291 |
| Provision for unpaid grants/claims | 16,853 | 17,439 |
| Unclaimed trust funds (note 10) | 6,075 | 5,587 |
| Lease obligations | 756 | 648 |
| Total Liabilities | 46,318 | 60,965 |
| <i>Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)</i> | | |
| Fund Balances | | |
| General funds | | |
| Lawyers | 30,301 | 26,106 |
| Paralegals | 1,832 | 1,834 |
| Restricted funds (note 19) | | |
| Compensation - lawyers | 30,543 | 21,818 |
| Compensation - paralegals | 959 | 948 |
| Errors and omissions insurance | 55,386 | 54,445 |
| Capital allocation | 5,458 | 2,927 |
| Invested in capital and intangible assets | 10,548 | 11,778 |
| County libraries | 85 | 189 |
| Other | 1,028 | 1,066 |
| Total Fund Balances | 136,140 | 121,111 |
| Total Liabilities and Fund Balances | 182,458 | 182,076 |

COVID-19 pandemic (note 18)

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

| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
|--|------------------------|---------------|---------------------------|---------------|-------------------------------|----------------|----------------|----------------|
| | General Fund Lawyer | | General Fund Paralegal | | Restricted Funds (note 19) | | Total | |
| Revenues | | | | | | | | |
| Annual fees | 67,836 | 70,927 | 5,525 | 6,073 | 21,953 | 22,330 | 95,314 | 99,330 |
| Insurance premiums and levies | — | — | — | — | 101,820 | 102,772 | 101,820 | 102,772 |
| Professional development and competence | 17,075 | 19,876 | 2,886 | 3,245 | — | — | 19,961 | 23,121 |
| Investment income | 653 | 803 | 83 | 96 | 1,452 | 1,447 | 2,188 | 2,346 |
| Change in fair value of investments | 493 | 1,002 | 62 | 127 | 1,108 | 1,472 | 1,663 | 2,601 |
| Other (note 12) | 6,040 | 7,090 | 1,064 | 1,239 | 397 | 89 | 7,501 | 8,418 |
| Total revenues | 92,097 | 99,698 | 9,620 | 10,780 | 126,730 | 128,110 | 228,447 | 238,588 |
| Expenses | | | | | | | | |
| Professional regulation, tribunals and compliance | 28,179 | 27,046 | 2,547 | 3,433 | — | — | 30,726 | 30,479 |
| Professional development and competence | 24,094 | 27,482 | 2,745 | 3,314 | — | — | 26,839 | 30,796 |
| Corporate services | 24,387 | 30,335 | 3,190 | 3,531 | — | — | 27,577 | 33,866 |
| Convocation, policy and outreach (note 13) | 5,457 | 7,934 | 544 | 861 | — | — | 6,001 | 8,795 |
| Services to members and public | 5,851 | 6,777 | 586 | 601 | — | — | 6,437 | 7,378 |
| Restricted (note 19) | — | — | — | — | 115,838 | 119,679 | 115,838 | 119,679 |
| Total expenses | 87,968 | 99,574 | 9,612 | 11,740 | 115,838 | 119,679 | 213,418 | 230,993 |
| Excess of revenues over expenses (expenses over revenues) | 4,129 | 124 | 8 | (960) | 10,892 | 8,431 | 15,029 | 7,595 |
| Fund balances, beginning of year | 26,106 | 25,138 | 1,834 | 3,074 | 93,171 | 85,304 | 121,111 | 113,516 |
| Interfund transfers (notes 2 and 14) | 66 | 844 | (10) | (280) | (56) | (564) | — | — |
| Fund balances, end of year | 30,301 | 26,106 | 1,832 | 1,834 | 104,007 | 93,171 | 136,140 | 121,111 |

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

| | 2020 | 2019 |
|---|----------------|-----------------|
| Net inflow (outflow) of cash related to the following activities | | |
| Operating | | |
| Excess of revenues over expenses | 15,029 | 7,595 |
| Items not affecting cash: | | |
| Amortization of capital assets | 1,936 | 2,003 |
| Amortization of intangible assets | 797 | 374 |
| Loss on disposal of capital and intangible assets | 16 | 1,434 |
| Lease obligations | 108 | 126 |
| | 17,886 | 11,532 |
| Net change in non-cash operating items: | | |
| Accounts receivable | (1,291) | 449 |
| Prepaid expenses | 627 | (736) |
| Accounts payable and accrued liabilities | (4,780) | (1,254) |
| Provision for unpaid grants/claims | (586) | (7,310) |
| Due (to)/from LAWPRO | 410 | (1,129) |
| Deferred revenue | (10,287) | (922) |
| Fund contribution - unclaimed trusts | 488 | 197 |
| Cash from operating activities | 2,467 | 827 |
| Investing | | |
| Portfolio investments - net | (5,890) | (2,241) |
| Loan receivable | (265) | (284) |
| Short-term investments - net | 1,969 | (5,788) |
| Capital asset and intangible asset additions | (1,519) | (2,303) |
| Cash used in investing activities | (5,705) | (10,616) |
| Net outflow of cash, during the year | (3,238) | (9,789) |
| Cash, beginning of year | 34,863 | 44,652 |
| Cash, end of year | 31,625 | 34,863 |

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Notes to Financial Statements, December 31, 2020

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.

As at December 31, 2020, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 57,000 and 9,600, respectively. 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.

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. As at December 31, 2020, the Lawyer General Fund balance was \$30,301,000 (2019 – \$26,106,000). The Paralegal General Fund balance was \$1,832,000 (2019 – \$1,834,000).

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.

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; or
- 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.

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

| (\$000s) | 2020 | 2019 |
|--|---------------|---------------|
| Cash and short term investments | 18,433 | 12,128 |
| Other assets | - | 233 |
| Portfolio investments | 30,541 | 28,080 |
| Total assets | 48,974 | 40,441 |
| Other liabilities | 620 | 236 |
| Provision for unpaid grants - lawyers | 16,628 | 17,324 |
| Provision for unpaid grants - paralegals | 224 | 115 |
| Total liabilities | 17,472 | 17,675 |
| Fund balance - lawyers | 30,543 | 21,818 |
| Fund balance - paralegals | 959 | 948 |
| Total liabilities and fund balances | 48,974 | 40,441 |

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.

Commencing in 2010, there was an additional premium endorsement included in the Society's insurance policy with LAWPRO. To the extent actual underwriting results exceeded an approved threshold loss ratio, additional premiums could be charged. The aggregate total of additional premium that could be charged for all claims years was capped at \$15 million. From 2010 to 2019, no additional premium was assessed against the Society and this endorsement has been discontinued for the 2020 insurance program.

From 2010 to 2019, Convocation restricted \$15 million of the E&O Fund balance as a backstop for this additional premium endorsement. Removal of the additional premium endorsement from the 2020 LAWPRO insurance policy enabled Convocation to remove this restriction.

As at December 31, 2020, the E&O Fund balance was \$55,386,000 (2019 – \$54,445,000). The fund balance is comprised of:

| (\$000s) | 2020 | 2019 |
|-----------------------------|---------------|--------|
| Investment in LAWPRO shares | 5,000 | 5,000 |
| Contributed capital | 30,642 | 30,642 |
| Additional premium backstop | - | 15,000 |
| Unrestricted | 19,744 | 3,803 |
| Total fund balance | 55,386 | 54,445 |

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. In 2020, \$nil (2019 – \$1,200,000) was transferred from the E&O Fund to the Lawyer General Fund.

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, 2020, the fund balance was \$5,458,000 (2019 – \$2,927,000).

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, 2020, the balance was \$10,548,000 (2019 – \$11,778,000), 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 funds for county library purposes, which are remitted to LIRN. The fund balance as at December 31, 2020 was \$85,000 (2019 – \$189,000).

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, 2020, the fund balance was \$84,000 (2019 – \$76,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 2020 was \$778,000 (2019 – \$934,000).

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, 2020, the fund balance was \$166,000 (2019 – \$56,000).

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 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.

There has been no change in risk exposures from the previous period.

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 equities meeting specified quality requirements.

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year-end, the maximum exposure of the Society to credit risk in cash, loan receivable, short and long-term fixed income investments was \$96,100,000 (2019 – \$100,253,000). 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 \$13,258,000 (2019 – \$11,967,000). 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 balance sheet, net of any required 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 balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs 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 0.61% (2019 – 1.95%).

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

4. Investment in Subsidiaries

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

| | 2020 | 2019 |
|---|-------------------|------------|
| 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) | 2020 | 2019 |
|--|---------------|--------|
| 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 balance sheet of LAWPRO:

| (\$000s) | 2020 | 2019 |
|---|----------------|---------|
| Total assets | 802,396 | 779,801 |
| Total liabilities | 532,826 | 508,500 |
| Total shareholders equity | 269,570 | 271,301 |
| Total liabilities and shareholders equity | 802,396 | 779,801 |

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

| (\$000s) | 2020 | 2019 |
|--|-----------------|---------|
| Revenues | 154,459 | 132,152 |
| Expenses | 126,469 | 125,821 |
| Income before taxes | 27,990 | 6,331 |
| Income tax expense | 6,980 | 1,483 |
| Net income | 21,010 | 4,848 |
| Other comprehensive income (loss) net of tax | (22,741) | 12,991 |
| Comprehensive income (loss) | (1,731) | 17,839 |

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

| (\$000s) | 2020 | 2019 |
|--|-----------------|---------|
| Net cash inflow from operating activities | 14,558 | 11,359 |
| Net cash outflow from investing activities | (24,538) | (3,112) |
| Net cash outflow from financing activities | (389) | (411) |
| Cash and cash equivalents, beginning of year | 18,117 | 10,281 |
| Cash and cash equivalents, end of year | 7,748 | 18,117 |

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 \$101,820,000 (2019 – \$102,772,000) for premiums during the year. LAWPRO contributed \$561,000 to the Society towards directors’ fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees (2019 – \$523,000). 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 \$7,764,000 (2019 – \$7,354,000). 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 balance sheet of LIRN:

| (\$000s) | 2020 | 2019 |
|--|--------------|-------|
| Total assets | 1,091 | 1,067 |
| Total liabilities | 57 | 59 |
| Total share capital and fund balances | 1,034 | 1,008 |
| Total liabilities, share capital and fund balances | 1,091 | 1,067 |

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

| (\$000s) | 2020 | 2019 |
|----------------------------------|--------------|-------|
| Total revenues | 8,027 | 8,076 |
| Total expenses | 8,001 | 7,777 |
| Excess of revenues over expenses | 26 | 299 |

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

| (\$000s) | 2020 | 2019 |
|---|--------------|-------|
| Net cash inflow from operating activities | 25 | 333 |
| Cash, beginning of year | 1,009 | 676 |
| Cash, end of year | 1,034 | 1,009 |

The Society provided LIRN with a grant of \$8,000,000 (2019 – \$8,100,000) 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 2020 was \$11,000 (2019 – \$32,000). 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 (2019 – \$6,000).

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 \$1,000 (2019 – due from of \$9,000).

6. Portfolio Investments

| (\$000s) | 2020 | 2019 |
|------------------------------------|---------------|---------------|
| Debt securities | 45,308 | 44,519 |
| Canadian equities | 24,403 | 19,302 |
| Total portfolio investments | 69,711 | 63,821 |

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

| | 2020 | 2019 |
|------------------------------|-----------|-----------|
| Effective interest rates (%) | 0.2 – 2.6 | 1.7 – 3.7 |
| Maturity dates (years) | 1 – 8 | 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 in full five years from the date of closing.

In 2020, the Society made an annual repayable capital payment of \$274,000 (2019 - \$280,000) as the second of three annual balance of sale payments to the vendors of Lexum.

8. Capital Assets and Intangible Assets

| Capital Assets (\$000s) | 2020 | | | 2019 |
|--|---------------|--------------------------|--------------|--------------|
| | Cost | Accumulated amortization | Net | Net |
| Land and buildings | 25,395 | 24,927 | 468 | 1,019 |
| Building and leasehold improvements | 30,259 | 23,591 | 6,668 | 7,015 |
| Furniture, equipment and computer hardware | 3,302 | 2,711 | 591 | 617 |
| Total capital assets | 58,956 | 51,229 | 7,727 | 8,651 |

| Intangible Assets (\$000s) | 2020 | | | 2019 |
|------------------------------------|--------------|--------------------------|--------------|--------------|
| | Cost | Accumulated amortization | Net | Net |
| Computer applications and software | 9,631 | 6,810 | 2,821 | 3,127 |
| Total intangible assets | 9,631 | 6,810 | 2,821 | 3,127 |

9. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts receivable, accounts payable and accrued liabilities is \$404,978 due from government remittances, primarily sales taxes (2019 – due to of \$642,000).

The accounts receivable balance comprises:

| (\$000s) | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| Accounts receivable | 36,416 | 33,014 |
| Allowance for doubtful accounts | 23,158 | 21,047 |
| Accounts receivable – net | 13,258 | 11,967 |

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 \$6,075,000 (2019 – \$5,587,000).

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 Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. As at December 31, 2020, total funds held in trust amount to \$3,815,000 (2019 – \$4,132,000).

12. Other Revenues

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

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 \$309,000 (2019 – \$693,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was \$61,000 (2019 – \$430,000). The Treasurer's honorarium expense for the year was \$206,000 (2019 – \$203,000).

14. Interfund Transfers

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

- \$1,519,000 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;
- \$156,000 from the Special Projects Fund to the General Fund to fund the facilities condition assessment, work related to the implementation of approved recommendations of the Challenges Faced by Racialized Licensees Working Group, and maintenance of the Society's grounds, net of funding transferred to the Special Projects Fund to fund the next bencher election; and
- \$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2020 budget to fund the Repayable Allowance Program in the Licensing Process.

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 2020 amounted to \$3,017,000 (2019 – \$2,846,000).

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:

| | |
|------------|---------------------|
| 2021 | \$2,348,000 |
| 2022 | \$2,464,000 |
| 2023 | \$2,580,000 |
| 2024 | \$2,697,000 |
| 2025 | \$2,813,000 |
| Thereafter | \$ 6,296,000 |
| Total | <u>\$19,198,000</u> |

In 2016, Convocation approved the Society's support for the Law Commission of Ontario's mandate for a third five-year period. The Society's contribution will be \$157,000 in 2021.

Pursuant to the loan arrangement described in Note 7, the Society is committed to pay \$265,000 in 2021 to fund annual balance of sale payments to the vendors of Lexum.

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. COVID-19 Pandemic

The COVID-19 outbreak negatively impacted the timing and amount of the Society's revenues in 2020, and the duration and overall impact on the Society's future revenues is unknown at this time. There were deliberate measures taken by the Society in 2020 along with circumstantial savings that resulted in expense reductions greater than the decline in revenue. It is not possible to reliably estimate the length and severity of the COVID-19 pandemic on the financial results and condition of the Society in future periods.

19. Schedule of Restricted Funds

A schedule of Restricted Funds is set out below.

Stated in thousands of dollars

| | 2020 | | | | | | | 2019 | |
|--|-------------------|------------|--------------------------------|--------------------|---|------------------|------------------|----------------|----------------|
| | 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 | 21,818 | 948 | 54,445 | 2,927 | 11,778 | 189 | 1,066 | 93,171 | 85,304 |
| Revenues | | | | | | | | | |
| Annual fees | 9,266 | 55 | - | 4,517 | - | 7,915 | 200 | 21,953 | 22,330 |
| Insurance premiums and levies | - | - | 101,820 | - | - | - | - | 101,820 | 102,772 |
| Investment income | 912 | 48 | 492 | - | - | - | - | 1,452 | 1,447 |
| Change in fair value of investments | 625 | 33 | 450 | - | - | - | - | 1,108 | 1,472 |
| Other | 353 | 44 | - | - | - | - | - | 397 | 89 |
| Total revenues | 11,156 | 180 | 102,762 | 4,517 | - | 7,915 | 200 | 126,730 | 128,110 |
| Total expenses | 2,431 | 169 | 101,821 | 467 | 2,749 | 8,019 | 182 | 115,838 | 119,679 |
| Excess of revenues over expenses (expenses over revenues) | 8,725 | 11 | 941 | 4,050 | (2,749) | (104) | 18 | 10,892 | 8,431 |
| Interfund transfers (note 14) | - | - | - | (1,519) | 1,519 | - | (56) | (56) | (564) |
| Fund balances, end of year | 30,543 | 959 | 55,386 | 5,458 | 10,548 | 85 | 1,028 | 104,007 | 93,171 |



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