



# 2012

ANNUAL REPORT

## Financial Statements



The Law Society of  
Upper Canada | Barreau  
du Haut-Canada

**THE LAW SOCIETY OF UPPER CANADA**  
**2012 ANNUAL REPORT**

# **Financial Statements**

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# THE LAW SOCIETY OF UPPER CANADA

## ANNUAL FINANCIAL STATEMENTS

### MANAGEMENT DISCUSSION AND ANALYSIS

The Law Society of Upper Canada's ("The Society") audited financial statements present the operational results and financial position of the General Fund, the Compensation Fund, the Errors & Omissions Insurance Fund ("E&O Fund") and other restricted funds. Separate financial statements have been prepared for the Society's subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO") and LibraryCo Inc. ("LibraryCo").

#### Summary of Financial Performance

The Society is reporting an operating surplus of \$5.1 million in 2012, compared to a deficit of \$3.6 million in 2011. The surplus in the current year arises largely from:

- Continued growth in professional development & competence revenues, in both the licensing process and continuing professional development, exceeding 2011 levels by \$1.3 million and budget by \$2.2 million.
- Limited growth in regulatory and professional development & competence expenses.
- Compensation Fund operations resulted in a surplus of \$2.2 million due to favourable developments in the provision for unpaid grants and investment income.
- In the E&O Fund, revenues, primarily premiums, exceeded amounts remitted to LAWPRO by \$3.9 million.

The Society's General Fund reports the bulk of the Society's operations related to its regulatory and competence mandate. The lawyer and paralegal General Fund incurred a surplus of \$276,000 (2011 – surplus of \$208,000).

#### Balance Sheet

The Society has adopted the new accounting standards for not-for-profit organizations, Part III of the Canadian Institute of Chartered Accountants Handbook. The Society's first reporting period using Part III is for the year ended December 31, 2012. Using 2011 as the comparative year, the transition date is January 1, 2011 resulting in three columns on the Balance Sheet. There were no adjustments to fund balances at the date of transition resulting from adopting Part III.

#### *Cash and Short-Term Investments*

Cash and short-term investments decreased by \$2.1 million to \$36 million. The other significant change in working capital was \$2.6 million due from LAWPRO at the end of 2012 compared to \$1.1 million owing to LAWPRO at the end of 2011.

#### *Investment in Subsidiaries*

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is

made up of two parts: the cost of the acquired share capital of \$4,997,000 purchased in 1991 when LAWPRO was established, plus contributed capital of \$30,645,000 accumulated between 1995 and 1997.

#### *Portfolio Investments*

Portfolio investments are shown at fair value of \$70.9 million compared to \$70.1 million in 2011. Investments are held in the following funds:

(\$000's)	2012	2011
E&O Fund	27,299	27,687
Compensation Fund	30,223	29,423
General Fund	13,342	12,987
Total	70,864	70,097

Investments comprise Canadian equities (16%) and Canadian fixed income investments (84%). The portfolio is managed in compliance with the Society's investment policy. Fixed income investments include a diversified mix of government, provincial and corporate bonds with an investment rating of BBB or better. Equity investments include a diversified mix of securities listed on the Toronto Stock Exchange.

#### *Capital Assets*

The decrease in capital assets to \$14.7 million from \$15.2 million reflects amortization for the period, offset by \$2.5 million in additions for projects such as the replacement of infrastructure, leasehold improvements and new software. Capital assets are recorded at cost and are amortized over their useful lives according to the Society's capital asset policy. Capital asset additions are typically financed from the Society's Capital Allocation Fund.

#### *Deferred Revenue*

Deferred revenue has decreased to \$11.3 million from \$12.5 million. The decrease relates primarily to less future year membership fees received in 2012 as compared to 2011. The timing of these payments does not follow a pattern and is dependent on when members actually pay their fees.

#### *Due to LAWPRO*

Cumulative fund payments exceeding premiums written means that the \$1.1 million due to LAWPRO at the end of 2011 has swung to \$2.6 million due from LAWPRO at the end of 2012.

#### *Provision for Unpaid Grants / Claims*

This balance includes the provisions for the Compensation Fund's unpaid grants and the E&O Fund's unpaid claims. It has decreased from \$13.4 million at December 31, 2011 to \$10.7 million at December 31, 2012.

The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims and has decreased from \$12.7 million to \$10.3 million due to a general decrease in grants anticipated to be closed with payment. The paralegal Compensation Fund provision for unpaid grants comprises \$155,000 (2011 – \$183,000) of the total \$10.3 million Compensation Fund provision for unpaid grants.

At \$390,000, the balance of the E&O Fund provision for unpaid claims has decreased from \$685,000. This provision is in run-off mode and all claims pre-date 1995.

#### *Unclaimed Trust Funds*

Unclaimed trust funds continue to increase, now totalling \$2.7 million compared to \$2.3 million at the end of 2011. These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed. To date, monies returned to clients from the fund have been nominal. By statute, the Society administers the unclaimed trust funds, in perpetuity, and is entitled to reimbursement for administrative expenses to a limit of the annual income earned on funds held. Net income, if any, is available for transfer to the Law Foundation of Ontario (“LFO”). To date, administrative expenses have exceeded income and no transfers to the LFO have been made.

#### *Other Trust Funds*

Included in the notes to the financial statements, but not the Balance Sheet, is a reference to other trust funds held by the Society. The Society administers client funds for lawyers under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet as they are held temporarily and with a restricted administrative mandate. Money paid to the Society is held in trust until it is repaid to the appropriate payee or transferred to the Unclaimed Trust Funds. At the end of 2012, total funds held in trust amounted to \$3.8 million (2011 – \$2 million). The volume and value of balances depend on trusteeships at the time.

### **Statement of Revenues and Expenses and Changes in Fund Balances**

#### **Revenues**

##### *Annual Fees*

Total annual fee revenues have increased to \$67.4 million from \$64.1 million in 2011 attributable to an increase in the fee for lawyers of \$41 and for paralegals of \$25 and an increase in the number of lawyers and paralegals billed.

##### *Insurance Premiums and Levies*

The E&O Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO.

Insurance premiums and levies decreased from \$102.5 million in 2011 to \$101.7 million in 2012. The base premium for professional liability insurance coverage for Ontario lawyers was \$3,350 per lawyer, the same premium charged in 2011. However the premium for the real estate practice coverage option decreased to \$250 in 2012 from \$400 charged in 2011 and premium discounts for part-time practice, restricted area of practice and new lawyers were also increased, resulting in lower total premiums in 2012 than in 2011. The number of insured lawyers and transaction levies were slightly higher than 2011.

##### *Licensing Process*

Licensing Process revenues from lawyer and paralegal candidates have increased from \$7.8 million to \$8.9 million due to a higher number of candidates. The Licensing Process fees for lawyers and paralegals were

both unchanged from 2011. The Law Foundation of Ontario approved grants totaling \$816,000 for the 2012 lawyer and paralegal Licensing Processes, the same grants as 2011.

#### *Continuing Professional Development ("CPD")*

Continuing Professional Development revenues have increased from \$7.9 million to \$8.2 million. The proportion of registrations for paid versus free programs has increased from 37% paid in 2011 to 45% paid in 2012. In the second year of the mandatory continuing professional development requirement, registrations have decreased from 94,000 in 2011 to 84,000 in 2012. The small reduction is in line with the experience in other mandatory CPD jurisdictions in the second year of implementation.

#### *Investment Income*

Total investment income has increased from \$3 million to \$3.4 million primarily due to improvements in unrealized gains.

#### *Other Revenues*

Included in other revenues are a variety of items such as referral service fees, the LibraryCo administration fee, Ontario Reports royalties, catering revenues, litigation and enforcement cost recoveries, charges for fee payment plans and other miscellaneous revenues.

### **Expenses**

#### *Professional Development & Competence ("PD&C")*

PD&C expenses are \$1.5 million higher than 2011 (\$21.4 million versus \$19.9 million). This is primarily a budgeted response to continuing professional development volumes which required additional staff to support the significantly increased number of registrants arising after the implementation of the compulsory program and a high volume of external provider accreditation applications after the first year of compulsory CPD.

Licensing Process expenses were relatively static year on year. Practice Review and Practice Management staffing increased as budgeted to support increased demand.

#### *Professional Regulation*

Regulatory expenses of \$21.8 million are higher than 2011 by \$600,000. Staffing increased by nine positions, primarily in the Discipline and Investigation departments in response to increased workloads in recent years. This increase in resources was offset by a decrease in expenses for outside counsel and expert witnesses during 2012.

#### *Administration*

Administrative expenses, primarily comprising Information Systems, Finance and Human Resources, increased by \$1 million to \$10.5 million in 2012, with more funding being allocated to document and data management and new technologies.

#### *Other expenses*

Other expenses including payments to the Federation of Law Societies, the virtual law library CANLII, provisions for uncollectable fees, employment settlement costs, insurance, catering costs, bench-related

reimbursements and remuneration and miscellaneous expenses were relatively stable at around \$8 million.

#### *Client Service Centre*

Client Service Centre expenses have increased to \$6.7 million from \$6 million. Increases were budgeted across the various departments, especially Membership Services, the Referral Service and By-law Administration to support an increased workload, including that arising from administration of the continuing professional development requirement.

### **Schedule of Restricted Funds**

#### *Compensation Fund*

The Compensation Fund mitigates losses sustained by any person as a consequence of dishonesty on the part of a member of the Law Society. Lawyer and paralegal revenues increased from \$10.2 million to \$10.4 million. Expenses allocated to the Compensation Fund from the General Fund increased by \$500,000 in line with cost trend in the underlying programs of Spot Audit, Investigations and Discipline. However, total expenses decreased from \$12.6 million to \$8.2 million because of the net change in the provision for unpaid grants in 2012 and 2011. This favourable change in the provision in unpaid grants explains the improvement in the “bottom line” of the combined lawyer and paralegal Compensation Funds from a deficit of \$2.4 million in 2011 to a surplus of \$2.2 million in 2012.

#### *Errors & Omissions Insurance Fund*

The E&O Fund accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. As analyzed in the revenue section above, insurance premiums and levies decreased from \$102.5 million in 2011 to \$101.7 million in 2012. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Total expenses of the Fund have decreased from \$104 million in 2011 to \$99 million in 2012 primarily because the fund has not made a contribution to the 2012 insurance program over and above the premium transfer.

#### *County Libraries Fund*

Funding of county libraries totalled \$7.2 million or \$203 per lawyer compared to the 2011 funding of \$6.8 million or \$196 per lawyer. Grants to county libraries also increased slightly due to the use of LibraryCo reserves.

#### *Parental Leave Assistance Plan (“PLAP”)*

PLAP is one of the funds included under “Other Restricted” funds. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who do not have access to any other parental leave financial benefits. Under the program terms for 2012, the Society provided 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. During 2012, Convocation extended the PLAP pilot project to permit further study. Also the PLAP eligibility criteria was modified, starting in January 2014, the applicant must have a net annual practice income of less than \$50,000 to be eligible to receive benefits. Benefit payments totaled \$343,000 to 39 successful applicants (2011 - \$495,000 to 60 successful applicants).

### *Changes in Fund Balances*

The 2012 budget had envisaged reducing the lawyer General Fund balance by \$2.75 million. Based on actual results only \$489,000 was required. The lawyer General Fund balance is now \$6.7 million. In 2013, \$2.75 million of this accumulated balance has again been earmarked for the reduction of annual fees.

The 2012 budget had envisaged using \$810,000 from the paralegal General Fund balance, although based on actual results, only \$70,000 was required. The paralegal General Fund balance is now \$847,000. In 2013, \$810,000 of this accumulated balance has again been earmarked for the reduction of annual fees.

The Compensation Fund balance of \$25.3 million for lawyers and \$383,000 for paralegals has increased by approximately \$2 million and \$166,000 respectively during 2012. The 2012 budget had envisaged reducing the lawyer Compensation Fund balance by \$1.4 million. In 2013, \$1.8 million has been earmarked for the reduction of Compensation Fund levies for lawyers and \$40,000 for paralegals.

The E&O Fund balance has increased from \$62 million to \$65.9 million. In 2012, \$2 million in surplus investment income accumulated in this fund had been earmarked for the reduction of lawyers' annual fees but was not used. In 2013, \$3 million in surplus investment income accumulated in this fund has been earmarked for the reduction of lawyers' annual fees.

The Capital Allocation Fund is stable at \$4.1 million. The other restricted funds balance is made up of the J. Shirley Denison Fund, the Repayable Allowance Fund, the Special Projects Fund and the Parental Leave Assistance Plan. The Working Capital Reserve remained at \$10.7 million during the year, in line with Convocation's policy of up to two months' operating expenses.

### **Conclusion**

The Society remains financially sound. The Society's accumulated fund balances total \$130 million of which \$15 million represents the book value of the Society's capital assets and \$36 million the value, at cost, of its investments in LAWPRO. Cash and short-term investments total \$36 million with \$28 million related to the General Fund, \$5 million to the Compensation Fund and \$3 million to the E&O Fund.



To the Members of  
The Law Society of Upper Canada

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We have audited the accompanying financial statements of The Law Society of Upper Canada which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of revenue and expenses and changes in fund balances and of cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011, in accordance with Canadian accounting standards for not-for-profit organizations.

*Deloitte LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
April 25, 2013

# THE LAW SOCIETY OF UPPER CANADA

## Balance Sheet

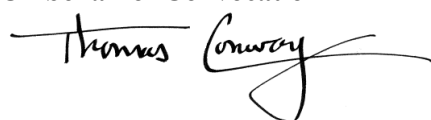
Stated in thousands of dollars

As at December 31, 2012, December 31, 2011 and January 1, 2011

	Dec 31 2012	Dec 31 2011	Jan 1 2011
<b>Assets</b>			
<b>Current Assets</b>			
Cash	19,474	19,364	17,696
Short-term investments	16,558	18,812	14,106
<b>Cash and short-term investments</b>	<b>36,032</b>	<b>38,176</b>	<b>31,802</b>
Accounts receivable (note 8)	2,149	2,182	1,972
Prepaid expenses	1,552	1,792	1,389
Due from LAWPRO (note 4)	2,565	-	-
<b>Total current assets</b>	<b>42,298</b>	<b>42,150</b>	<b>35,163</b>
<b>Investment in subsidiaries (note 4)</b>	<b>35,642</b>	<b>35,642</b>	<b>35,642</b>
<b>Portfolio investments (note 6)</b>	<b>70,864</b>	<b>70,097</b>	<b>75,310</b>
<b>Capital assets (note 7)</b>	<b>14,744</b>	<b>15,218</b>	<b>16,989</b>
<b>Total Assets</b>	<b>163,548</b>	<b>163,107</b>	<b>163,104</b>
<b>Liabilities and Fund Balances</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities (note 8)	9,106	9,106	7,129
Deferred revenue	11,255	12,495	11,114
Due to LAWPRO (note 4)	-	1,118	4,108
<b>Total current liabilities</b>	<b>20,361</b>	<b>22,719</b>	<b>22,351</b>
Provision for unpaid grants/claims (note 9)	10,675	13,382	10,334
Unclaimed trust funds (note 10)	2,747	2,337	2,184
<b>Total Liabilities</b>	<b>33,783</b>	<b>38,438</b>	<b>34,869</b>
<b>Fund Balances</b>			
<b>General funds</b>			
Lawyers	6,710	7,199	4,891
Paralegals	847	917	1,460
<b>Restricted funds</b>			
Compensation - lawyers	25,331	23,324	25,726
- paralegals	383	217	184
Errors and omissions insurance	65,910	61,972	64,282
Capital allocation	4,055	4,177	3,411
Invested in capital assets	14,744	15,218	16,989
Other	1,110	970	617
Working capital reserve	10,675	10,675	10,675
<b>Total Fund Balances</b>	<b>129,765</b>	<b>124,669</b>	<b>128,235</b>
<b>Total Liabilities and Fund Balances</b>	<b>163,548</b>	<b>163,107</b>	<b>163,104</b>

See accompanying notes

On behalf of Convocation



Treasurer



Chair of Audit & Finance Committee

## THE LAW SOCIETY OF UPPER CANADA

### Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the years ended December 31

	2012	2011	2012	2011	2012	2011	2012	2011
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
<b>Revenues</b>								
Annual fees	46,008	43,682	2,323	2,098	19,071	18,339	67,402	64,119
Insurance premiums and levies	-	-	-	-	101,678	102,531	101,678	102,531
Licensing process	7,003	6,278	1,880	1,538	-	-	8,883	7,816
Continuing professional development	8,206	7,938	-	-	-	-	8,206	7,938
Investment income (note 13)	881	764	-	-	2,520	2,195	3,401	2,959
Other (note 12)	5,920	5,572	116	65	555	1,055	6,591	6,692
<b>Total revenues</b>	<b>68,018</b>	<b>64,234</b>	<b>4,319</b>	<b>3,701</b>	<b>123,824</b>	<b>124,120</b>	<b>196,161</b>	<b>192,055</b>
<b>Expenses</b>								
Professional development and competence	20,283	18,886	1,130	1,042	-	-	21,413	19,928
Professional regulation	19,728	19,318	2,026	1,882	-	-	21,754	21,200
Administrative	9,876	8,928	599	544	-	-	10,475	9,472
Other (note 14)	7,681	7,473	346	351	-	-	8,027	7,824
Client service centre	6,322	5,664	397	347	-	-	6,719	6,011
Facilities	4,852	4,510	107	108	-	-	4,959	4,618
Policy and legal services	2,542	2,089	200	104	-	-	2,742	2,193
Communications	1,605	1,390	95	86	-	-	1,700	1,476
Tribunals	1,475	1,629	62	45	-	-	1,537	1,674
Equity	980	1,116	46	47	-	-	1,026	1,163
Restricted (schedule of restricted funds)	-	-	-	-	119,004	127,894	119,004	127,894
Total expenses	75,344	71,003	5,008	4,556	119,004	127,894	199,356	203,453
Less: Expenses allocated to Compensation Fund	(7,726)	(7,446)	(565)	(386)	-	-	(8,291)	(7,832)
<b>Net expenses</b>	<b>67,618</b>	<b>63,557</b>	<b>4,443</b>	<b>4,170</b>	<b>119,004</b>	<b>127,894</b>	<b>191,065</b>	<b>195,621</b>
<b>Surplus (Deficit)</b>	<b>400</b>	<b>677</b>	<b>(124)</b>	<b>(469)</b>	<b>4,820</b>	<b>(3,774)</b>	<b>5,096</b>	<b>(3,566)</b>
<b>Fund balances, beginning of year</b>	<b>7,199</b>	<b>4,891</b>	<b>917</b>	<b>1,460</b>	<b>116,553</b>	<b>121,884</b>	<b>124,669</b>	<b>128,235</b>
<b>Interfund transfers (note 15)</b>	<b>(889)</b>	<b>1,631</b>	<b>54</b>	<b>(74)</b>	<b>835</b>	<b>(1,557)</b>	<b>-</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>6,710</b>	<b>7,199</b>	<b>847</b>	<b>917</b>	<b>122,208</b>	<b>116,553</b>	<b>129,765</b>	<b>124,669</b>

See accompanying notes

# THE LAW SOCIETY OF UPPER CANADA

## Statement of Cash Flows

Stated in thousands of dollars

For the years ended December 31

	2012	2011
<b>Net inflow(outflow) of cash related to the following activities</b>		
<b>Operating</b>		
Surplus (deficit)	5,096	(3,566)
Items not affecting cash:		
(Decrease)increase in provision for grants and claims	(2,707)	3,048
Amortization of capital assets	3,028	2,987
Capital assets write off	-	105
	5,417	2,574
Net change in non-cash operating items:		
Accounts receivable	33	(210)
Prepaid expenses	240	(403)
Accounts payable and accrued liabilities	-	1,977
Due to LAWPRO	(3,683)	(2,990)
Deferred revenue	(1,240)	1,381
Fund contribution - unclaimed trusts	410	153
<b>Cash from operating activities</b>	<b>1,177</b>	<b>2,482</b>
<b>Investing</b>		
Portfolio investments (net)	(767)	5,213
Short-term investments (net)	2,254	(4,706)
Capital asset additions	(2,554)	(1,321)
<b>Cash used in investing activities</b>	<b>(1,067)</b>	<b>(814)</b>
<b>Net inflow of cash, during the year</b>	<b>110</b>	<b>1,668</b>
Cash, beginning of year	19,364	17,696
<b>Cash, end of year</b>	<b>19,474</b>	<b>19,364</b>

**THE LAW SOCIETY OF UPPER CANADA**  
**Notes to Financial Statements, December 31, 2012**  
Stated in whole dollars except where indicated

**1. Background**

The Law Society of Upper Canada (the “Society”) was founded in 1797 and incorporated in 1822 with the enactment of the Law Society Act. In 2007, the Law Society Act was amended by the Access to Justice Act to legislate the regulation of paralegals by the Society.

The Law Society Act, section 4.1, states that it is the function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the Law Society Act, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law.
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario.
- The Society has a duty to protect the public interest.
- The Society has a duty to act in a timely, open and efficient manner.
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

At December 31, 2012, the Society had a membership of approximately 45,000 lawyers and 5,000 paralegals. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is a not-for-profit organization, as described in section 149(1)(l) of the Income Tax Act, and therefore 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 Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

### ***Subsidiaries and Related Corporation***

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company ("LAWPRO"), and LibraryCo Inc. ("LibraryCo") and a related corporation, the Law Society Foundation. These entities have not been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

### ***General Fund***

The General Fund is the Society's operating fund, accounting for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2012, the lawyer fund balance was \$6,710,000 (2011 – \$7,199,000, January 1, 2011 – \$4,891,000) and the paralegal fund balance was \$847,000 (2011 – \$917,000, January 1, 2011 – \$1,460,000).

### ***Restricted Funds***

#### ***Compensation Fund***

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The General Fund allocates certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society to the Compensation Fund. In 2012, these amounted to \$8,291,000 (2011 – \$7,832,000). At December 31, 2012, the lawyer share of the fund balance was \$25,331,000 (2011 – \$23,324,000, January 1, 2011 – \$25,726,000) and the paralegal share of the fund balance was \$383,000 (2011 – \$217,000, January 1, 2011 – \$184,000).

#### ***Errors and Omissions Insurance Fund***

The Errors and Omissions Insurance Fund ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

To the extent that transaction-based levies exceed anticipated amounts, the excess remains in the E&O Fund and is applied as premiums in future years. In the event of a shortfall, the shortfall is met by additional funds from the E&O Fund balance. The net 2012 contribution to the E&O Fund balance was \$2,528,000. The net 2011 contribution to the insurance program from the E&O Fund balance was \$1,490,000.

There is also a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2012 and 2011.

The E&O Fund also reports claims liabilities for 1995 and prior which are now substantially in run-off mode. The Society retained financial responsibility for insurance policy deductibles through to December 31, 1994. Effective 1995, 100% of the risk above the individual member deductible was insured through LAWPRO.

At December 31, 2012, the E&O Fund balance was \$65,910,000 (2011 – \$61,972,000, January 1, 2011 – \$64,282,000) of which \$35,642,000 (2011 – \$35,642,000, January 1, 2011 – \$35,642,000) comprises the Society's investment in LAWPRO.

#### ***Capital Allocation Fund***

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital assets. These include buildings and major equipment including computers. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. At December 31, 2012, the balance was \$4,055,000 (2011 – \$4,177,000, January 1, 2011 – \$3,411,000).

#### ***Invested in Capital Assets Fund***

The Invested in Capital Assets Fund records transactions related to the Society's capital assets, specifically acquisitions, amortization and disposals. At December 31, 2012, the balance was \$14,744,000 (2011 – \$15,218,000, January 1, 2011 – \$16,989,000), representing the net book value of the Society's capital assets.

#### ***County Libraries Fund***

The County Libraries Fund records transactions related to the Society's support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2012 and 2011, and January 1, 2011 was \$nil.

#### ***Working Capital Reserve***

The Working Capital Reserve was approved by Convocation to ensure adequate cash reserves for the continuous financing of the General Fund operations for up to two months. The fund balance at December 31, 2012 and 2011 and January 1, 2011 was \$10,675,000.

### ***Other Restricted Funds***

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2012, the balance was \$253,000 (2011 – \$203,000, January 1, 2011 – \$159,000).

The J. Shirley Denison Fund, an endowment fund, provides relief and assistance to lawyers, candidates in the lawyer licensing process and former lawyers who find themselves in difficult financial circumstances. Contributions for endowments are recognized as revenues. At December 31, 2012, the balance was \$53,000 (2011 – \$74,000, January 1, 2011 – \$92,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2012 was \$538,000 (2011 – \$484,000, January 1, 2011 – \$202,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (“PLAP”) and is funded by lawyers’ fees. The PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who do not have access to any other parental leave financial benefits. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. Convocation has approved an extension of the PLAP pilot project, subject to a tax ruling from the Canada Revenue Agency, to permit further evaluation of the program, and instituted a means test by which an applicant must have a net annual practice income of less than \$50,000 to be eligible for the PLAP. The new means test will be effective as of January 1, 2014.

At December 31, 2012, the Fund balance was \$266,000 (2011 – \$209,000, January 1, 2011 – \$164,000), which will be carried over to the next year to fund the program.

### **3. Significant Accounting Policies**

#### ***Basis of presentation***

#### ***Adoption of new accounting standards***

During the year, the Society adopted the new accounting standards for not-for-profit organizations, Part III of the Canadian Institute of Chartered Accountants Handbook (Part III).

The Society’s first reporting period using Part III is for the year ended December 31, 2012. As a result, the date of transition to Part III is January 1, 2011. The Society presented financial statements under the previous Canadian generally accepted accounting principles (“GAAP”) annually to December 31 of each fiscal year up to, and including, December 31, 2011.

As these financial statements are the first financial statements for which the Society has applied Part III, the financial statements have been prepared in accordance with the provisions set out in Section 1501 of Part III, First-time Adoption by Not-for-Profit Organizations.



The Society is required to apply Part III effective for periods ending on December 31, 2012 in:

- a) preparing and presenting its opening balance sheet at January 1, 2011; and
- b) preparing and presenting its balance sheet for December 31, 2012 (including comparative amounts for both December 31, 2011 and January 1, 2011), statement of revenues and expenses and changes in fund balances, and statement of cash flows for the year ended December 31, 2012 (including comparative amounts for 2011) and disclosures (including comparative information for December 31, 2011 and January 1, 2011, where applicable).

There have been no adjustments to fund balances at the date of transition resulting from adopting Part III, including the use of exemptions under Section 1501, and no reconciliation of the balance sheet at January 1, 2011 or any other statement is required.

### ***Financial instruments***

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

<b>Asset / Liability</b>	<b>Measurement</b>
Cash and short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Other amounts noted on the balance sheet such as prepaid expenses, capital assets, investment in subsidiaries, deferred revenue, and the provisions for unpaid grants / claims, are not financial instruments. Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to published quotations in an active market at year end for fixed income and by reference to transactional net asset value for the Canadian equity pooled fund. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

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 Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

***Market risk***

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed 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 and short and long-term fixed income investments was \$94,951,000 (2011 – \$103,059,000, January 1, 2011 – \$92,937,000). 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 \$2,149,000 (2011 – \$2,182,000, January 1, 2011 – \$1,972,000). 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 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. For purposes of calculating the first year's amortization, all capital assets are deemed to be acquired, put into service, or completed on July 1. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building improvements	10 years
Furniture, equipment and computer hardware and software	3 to 5 years

### ***Revenue recognition***

Member fees, premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year. Premium revenues are recognized on a pro rata basis over the term of the respective insurance policies. Premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue. Transaction-based levies are recorded as revenues in the year received.

Professional Development & Competence, and other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees and premiums receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

### ***Grant - related balances***

Included in the provision for unpaid grants/claims is the provision for unpaid Compensation Fund grants. Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a \$150,000 limit per applicant. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per applicant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

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 1.05% (2011 – 2.57%).

### ***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, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers. In addition, the Paralegal Standing Committee is responsible for developing policy related to paralegal regulation for Convocation's approval. Licensed paralegals elect five paralegal members to the Paralegal Standing Committee.

In total there are 13 members of the Paralegal Standing Committee: five paralegals, five lawyers and three lay benchers. Two paralegal benchers are elected by the Paralegal Standing Committee's five paralegal members and three lay benchers.

Elected and ex-officio benchers and Paralegal Standing Committee members are only eligible for remuneration after contributing 26 days of voluntary time. The Society tries to ensure that benchers appointed by the provincial government are remunerated on significantly the same basis as other benchers for adjudication work without the 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

### ***Measurement uncertainty***

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

#### 4. Investment in Subsidiaries

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

	<b>Dec 31 2012</b>	Dec 31 2011	Jan 1 2011
LAWPRO	<b>35,642,000</b>	35,642,000	35,642,000
LibraryCo	<b>100</b>	100	100
Total investment in subsidiaries	<b>35,642,100</b>	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 lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5 million in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares. In the period from 1995 to 1997, the Society transferred a net amount of \$30.6 million in capitalization funding as contributed surplus to LAWPRO.

As required by Canadian generally accepted accounting principles, LAWPRO, a publicly accountable entity, adopted International Financial Reporting Standards ("IFRS") commencing in their previous financial year ended December 31, 2011.

There are therefore significant differences in the accounting policies of LAWPRO and the Society, but because the two organizations are so different and LAWPRO is not consolidated, variances arising from the different financial reporting framework adopted by the two organizations have not been reconciled.

Summarized balance sheet of LAWPRO as at:

(\$000's)	<b>Dec 31 2012</b>	Dec 31 2011	Jan 1 2011
Total assets	<b>611,041</b>	580,558	550,989
Total liabilities	<b>439,470</b>	412,682	391,682
Total shareholder's equity	<b>171,571</b>	167,876	159,307
Total liabilities and shareholder's equity	<b>611,041</b>	580,558	550,989

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

(\$000's)	<b>2012</b>	2011
Revenue	<b>123,451</b>	134,039
Expenses	<b>(127,817)</b>	(121,923)
(Loss) income before taxes	<b>(4,366)</b>	12,116
Income tax recovery (expense)	<b>1,452</b>	(3,410)
Net (loss) income	<b>(2,914)</b>	8,706
Other comprehensive income (loss) net of tax	<b>6,609</b>	(137)
Comprehensive income	<b>3,695</b>	8,569

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

(\$000's)	<b>2012</b>	2011
Net cash inflow from operating activities	<b>26,078</b>	18,834
Net cash outflow from investing activities	<b>(24,637)</b>	(18,749)
Cash and cash equivalents, beginning of year	<b>16,936</b>	16,851
Cash and cash equivalents, end of year	<b>18,377</b>	16,936

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$99,150,000 (2011 – \$104,021,000) for premiums during the year. Included in the Society's assets or liabilities are amounts due from LAWPRO of \$2,565,000 (2011 – due to LAWPRO of \$1,118,000, January 1, 2011 – due to LAWPRO of \$4,108,000).

***LibraryCo***

LibraryCo, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association (“TLA”) and 75 are held by the County and District Law Presidents’ Association (“CDLPA”). The Society may appoint up to four directors, CDLPA may appoint up to three directors and TLA may appoint one director. The investment is recorded at cost on the Society's Balance Sheet.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo as at:

(\$000's)	<b>Dec 31 2012</b>	Dec 31 2011	Jan 1 2011
Total assets	<b>998</b>	1,151	1,696
Total liabilities	<b>27</b>	117	85
Total share capital and fund balances	<b>971</b>	1,034	1,611
Total liabilities, share capital and fund balances	<b>998</b>	1,151	1,696

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

(\$000's)	<b>2012</b>	2011
Total revenue	<b>8,024</b>	7,577
Total expenses	<b>8,087</b>	8,154
Deficit	<b>63</b>	577

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

(\$000's)	<b>2012</b>	2011
Net cash outflow from operating activities	<b>(152)</b>	(546)
Cash and short-term investments, beginning of year	<b>1,114</b>	1,660
Cash and short-term investments, end of year	<b>962</b>	1,114

The Society administers the operations of LibraryCo under an administrative services agreement. The total amount billed by the Society was \$585,000 (2011 – \$577,000) for administrative services and certain other services and publications. At year end, LibraryCo owed the Society \$8,000 (2011 – \$51,000, January 1, 2011 – \$66,000).

## 5. Related Corporation

The Law Society Foundation (“LSF”) is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in accounts receivable are amounts due from LSF of \$27,000 (2011 – \$3,000, January 1, 2011 – \$34,000).

## 6. Portfolio Investments

	<b>Dec 31</b>	Dec 31	Jan 1
(\$000's)	<b>2012</b>	2011	2011
Debt securities	<b>58,494</b>	60,276	60,988
Canadian equities	<b>12,370</b>	9,821	14,322
Total portfolio investments	<b>70,864</b>	70,097	75,310

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

	<b>Dec 31</b>	Dec 31	Jan 1
	<b>2012</b>	2011	2011
Effective interest rates (%)	<b>1.2 - 3.2</b>	1.1 - 3.4	1.2 - 3.3
Maturity dates (years)	<b>1 - 5</b>	1 - 5	1 - 5

## 7. Capital Assets

	Dec 31 2012			Dec 31 2011			Jan 1 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land and buildings	25,396	20,521	4,875	25,394	19,970	5,424	25,396	19,419	5,977
Building improvements	21,744	13,274	8,470	21,655	12,555	9,100	21,461	11,290	10,171
Furniture, equipment, computer hardware and software	7,579	6,180	1,399	6,956	6,262	694	6,899	6,058	841
Total capital assets	<b>54,719</b>	<b>39,975</b>	<b>14,744</b>	54,005	38,787	15,218	53,756	36,767	16,989



## 8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is \$743,000 in government remittances, primarily sales taxes (2011 – \$815,000, January 1, 2011 – \$650,000).

The accounts receivable balance comprises:

(\$000's)	Dec 31 2012	Dec 31 2011	Jan 1 2011
Accounts receivable	14,056	13,443	12,063
Allowance for doubtful accounts	11,907	11,261	10,091
Accounts receivable - net	2,149	2,182	1,972

The allowance for doubtful accounts mainly relates to monitoring and enforcement receivables and annual fees receivable from suspended lawyers.

## 9. Provision for Unpaid Grants / Claims

(\$000's)	Dec 31 2012	Dec 31 2011	Jan 1 2011
Provision for unpaid grants – Compensation Fund	10,284	12,697	9,648
Provision for unpaid claims – E&O Fund	391	685	686
TOTAL	10,675	13,382	10,334

## 10. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$2,747,000 (2011 – \$2,337,000, January 1, 2011 – \$2,184,000).

## 11. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2012, total funds held in trust amount to \$3,838,000 (2011 – \$2,046,000, January 1, 2011 – \$2,685,000).

## 12. Other Revenues

Included in other revenues is income from the Ontario Reports, catering, the Law Society Referral Service and specialist certification.

## 13. Investment Income

(\$'000s)	2012	2011
Dividends and interest	2,465	2,550
Realized gains	522	1,515
Unrealized (losses) gains	414	(1,106)
<b>TOTAL</b>	<b>3,401</b>	2,959

## 14. Other Expenses

Included in other expenses are payments to the Federation of Law Societies, County and District Law Presidents' Association, insurance, professional fees, termination payments, catering, other corporate expenses and governance related disbursements. The total remuneration of elected and ex-officio benchers, lay benchers and Paralegal Standing Committee members during the year was \$1,022,000 (2011 – \$942,000). The total expense reimbursements of the elected and ex-officio benchers, lay benchers and Paralegal Standing Committee members during the year was \$723,000 (2011 – \$658,000). The Treasurer's honorarium for the year was \$142,000 (2011 – \$106,000).

## 15. Interfund Transfers

During the year the following interfund transfers took place:

- \$1,990,000 transferred from the Capital Allocation Fund to the Invested in Capital Assets Fund representing assets capitalized during the year in compliance with GAAP and the Law Society's accounting policies.
- \$564,000 transferred from the General Fund to the Invested in Capital Assets Fund representing assets capitalized during the year in compliance with GAAP and the Law Society's accounting policies.
- \$117,000 transferred from the General Fund to the County Libraries Fund.
- Transfer of \$100,000 from the General Fund to the Repayable Allowance Fund, as provided in the 2012 budget to fund the Repayable Allowance Program in the Licensing Process.
- Transfer of \$54,000 from the General Fund to the Special Projects Fund.

## 16. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elect to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2012 amounted to \$2,357,000 (2011 – \$2,138,000).

## 17. Commitments

The Society is committed to monthly lease payments for property under leases having various terms up to April 2020. Aggregate minimum annual payments to the expiry of the leases are as follows:

2013	\$956,000
2014	\$959,000
2015	\$955,000
2016	\$922,000
2017	\$923,000
Thereafter	\$2,163,000

In 2011, the Society renewed a five-year commitment in the annual amount of \$138,000 (previously \$100,000) to the Law Commission of Ontario to support its operations.

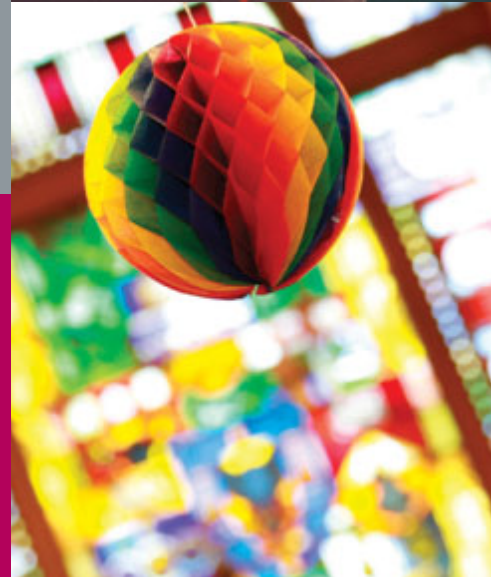
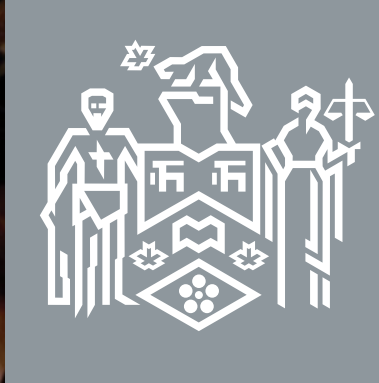
## 18. Contingent Liabilities

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.

## 19. Comparative Figures

Certain prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.





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