

Financial Statements of

**LAW SOCIETY OF
NEWFOUNDLAND AND
LABRADOR**

Year ended December 31, 2014

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Table of Contents

	Page
Independent Auditors' Report	
Balance Sheet	1
Statement of Earnings	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 14



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INDEPENDENT AUDITORS' REPORT

To the of Law Society of Newfoundland and Labrador

We have audited the accompanying financial statements of the Law Society of Newfoundland and Labrador, which comprise the balance sheet as at December 31, 2014, the statements of earnings, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 our 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, we consider 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 qualified audit opinion.

Basis for Qualified Opinion

The Lawyer's insurance Programme derives revenues from transaction levies, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Lawyer's insurance Programme. Therefore, we were not able to determine whether any adjustments might be necessary to revenues, excess of revenues over expenses and cash flows for the year then ended, and current assets and net assets as at December 31, 2014. Our audit opinion on the financial statements for the year then ended was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Law Society of Newfoundland and Labrador as at December 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants
April 16, 2015
St. John's, Canada

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

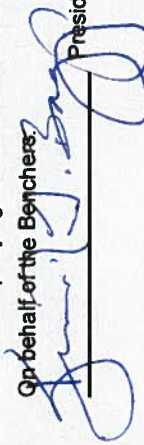
Balance Sheet

December 31, 2014, with comparative information for 2013

		General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2014	2013
Assets							
Current assets:							
Cash	\$	134,781	882,839	4,020	-	1,021,640	816,491
Investments and marketable securities (note 3)		2,447,153	12,255,639	1,068,326	11,246	15,782,364	15,109,389
Accounts receivable other		39,494	-	-	-	39,494	65,975
Trade receivable		51,767	738,710	-	-	790,477	444,808
Prepaid expenses		5,641	173,307	30,669	-	209,617	324,429
Interfund balances		73,243	(73,243)	-	-	-	-
		2,752,079	13,977,252	1,103,015	11,246	17,843,592	16,761,092
Capital assets (note 4)		1,051,433	-	-	-	1,051,433	1,139,847
Claims recovery receivable (note 5)		-	66,000	-	-	66,000	78,000
	\$	3,803,512	14,043,252	1,103,015	11,246	18,961,025	17,978,939
Liabilities and Net Assets							
Current liabilities:							
Accounts payable and accrued liabilities (note 6)	\$	381,403	41,757	-	-	423,160	337,833
Provision for unpaid claims		20,000	-	-	-	20,000	60,000
Reserve for claims and related costs (note 7)		-	2,829,302	-	-	2,829,302	3,082,626
		401,403	2,871,059	-	-	3,272,462	3,480,459
Net Assets:							
General Fund		3,402,109	-	-	-	3,402,109	3,311,342
Lawyers' Insurance Programme		-	11,172,193	-	-	11,172,193	10,102,073
Assurance Fund		-	-	1,103,015	-	1,103,015	1,073,711
Endowment Fund		-	-	-	11,246	11,246	11,354
		3,402,109	11,172,193	1,103,015	11,246	15,688,563	14,498,480
	\$	3,803,512	14,043,252	1,103,015	11,246	18,961,025	17,978,939

See accompanying notes to financial statements.

On behalf of the Benchers:

 President

Vice President



Chair of Insurance Programme

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Statement of Earnings

Year ended December 31, 2014, with comparative information for 2013

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2014	2013
Revenue:						
Admission fees (note 9)	\$ 90,575	\$ -	\$ -	-	\$ 90,575	\$ 73,415
Annual fees (note 10)	1,533,694	883,356	36,941	-	2,453,991	2,411,813
Audit program	84,989	-	-	-	84,989	66,480
Bar admission course	54,429	-	-	-	54,429	85,068
Continuing legal education	20,867	-	-	-	20,867	26,212
Grant - Law Foundation	76,000	-	-	-	76,000	76,000
Interest - membership fees	67,953	-	-	-	67,953	70,779
Investment income	126,767	570,268	49,194	142	746,371	711,893
Other income	19,372	75,232	51	-	94,655	22,023
Transaction levy revenue	-	893,855	-	-	893,855	1,106,840
Recoverable from CLIA	-	368,143	-	-	368,143	-
	2,074,646	2,790,854	86,186	142	4,951,828	4,650,523
General and administrative expenses:						
Salaries and benefits	1,005,317	188,397	-	-	1,193,714	1,156,884
Claims and related costs	-	718,748	-	-	718,748	1,279,127
CLIA premiums	-	468,155	-	-	468,155	568,151
Libraries	257,532	-	-	-	257,532	229,075
Miscellaneous expenses	187,564	29,872	-	250	217,686	220,660
Building operation	140,430	-	-	-	140,430	138,184
Discipline expense	140,042	-	-	-	140,042	93,538
Custodianship	-	116,250	-	-	116,250	21,424
Amortization	88,414	-	-	-	88,414	89,621
Benchers' convocations and receptions	78,521	-	-	-	78,521	79,410
Audit program	76,827	-	-	-	76,827	40,872
Insurance	10,281	-	56,882	-	67,163	71,846
Professional fees	32,093	18,916	-	-	51,009	45,985
Federation of Law Societies' fees	47,208	-	-	-	47,208	41,611
Professional development	33,314	-	-	-	33,314	26,719
Professional Assistance Program	-	30,366	-	-	30,366	32,485
Actuarial fees	-	30,030	-	-	30,030	-
Bar admission course	17,322	-	-	-	17,322	28,044
Continuing legal education	12,040	-	-	-	12,040	-
Admin fees	(120,000)	120,000	-	-	-	-
Provision for unpaid claims	(23,026)	-	-	-	(23,026)	10,000
	1,983,879	1,720,734	56,882	250	3,761,745	4,236,084
Net earnings	\$ 90,767	\$ 1,070,120	\$ 29,304	\$(108)	\$ 1,190,083	\$ 414,439

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Statement of Changes in Net Assets

Year ended December 31, 2014, with comparative information for 2013

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2014	2013
Net assets, beginning of year	\$ 3,311,342	\$ 10,102,073	\$ 1,073,711	\$ 11,354	\$ 14,498,480	\$ 14,084,041
Net earnings	90,767	1,070,120	29,304	(108)	1,190,083	414,439
Net assets, end of year	\$ 3,402,109	\$ 11,172,193	\$ 1,103,015	\$ 11,246	\$ 15,688,563	\$ 14,498,480

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,190,083	\$ 414,439
Items not involving cash:		
Amortization	88,414	89,621
Unrealised gain on investment	(580,780)	(438,125)
Provision on risk sharing on unpaid claims	(23,026)	10,000
	<u>674,691</u>	<u>75,935</u>
Change in non-cash operating working capital:		
Accrued income on investments and marketable securities	(36,167)	(2,979)
Accounts receivable other	26,481	(20,441)
Trade receivable	(345,669)	(95,409)
Prepaid expenses	114,812	(18,005)
Accounts payable and accrued liabilities	85,327	80,675
Provision for unpaid claims	(16,974)	-
Reserve for claims and related costs	(253,324)	734,881
Claims recovery receivable	12,000	(78,000)
	<u>261,177</u>	<u>676,657</u>
Investing:		
Proceeds from sales of investments and marketable securities	2,276,000	1,600,000
Purchases of investments and marketable securities	(2,332,028)	(1,981,225)
	<u>(56,028)</u>	<u>(381,225)</u>
Increase in cash and cash equivalents	205,149	295,432
Cash and cash equivalents, beginning of year	816,491	521,059
Cash and cash equivalents, end of year	\$ 1,021,640	\$ 816,491

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements

Year ended December 31, 2014

The Law Society of Newfoundland and Labrador (the "Law Society") is a regulatory body for the legal profession in the province. The Law Society is a not-for-profit entity and, as such, is exempt from the payment of income tax.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook.

(a) Fund accounting:

The Law Society records its financial transactions on the fund accounting basis as follows:

(i) General Fund:

Operations include all activities related to the Law Society not directly associated with the Assurance Fund or the Lawyers' Insurance Programme.

(ii) Lawyers' Insurance Programme (the "Programme"):

Operations relate to the administration of professional liability insurance for members of the Law Society whereby professional liability insurance is provided to the members of the Law Society by the Canadian Lawyers' Insurance Association (CLIA). The Programme receives contributions from members of the Law Society through annual insurance premiums. In addition, effective October 1, 2005, the Programme commenced the collection of transaction levies. The levies are collected from members of the Law Society on certain legal transactions and are then reported and remitted to the Programme on a quarterly basis.

(iii) Assurance Fund:

Operations relate to providing compensation to individuals who have suffered a loss due to misappropriation of funds or other fraudulent activities by a member.

(iv) Endowment Fund:

The endowment fund holds investments for the purposes of providing scholarships to law students in the province of Newfoundland and Labrador.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(b) Reserve for claims and related costs:

The reserve for claims and related costs is based upon the change from year to year of the claims and related costs. The reserve value is based upon the greater of the Programme's current year estimate of incurred costs of claims and the actuarial computed discounted costs of possible claims for the current year.

The Programme's appointed actuary is engaged to provide an annual valuation of the reserve for claims and related costs in accordance with the standards of practice adopted by the Canadian Institute of Actuaries. For the purpose of the actuarial valuation, the actuary is making use of certain information contained in the Programme's financial records.

Claims and related costs of the Programme are subject to specific maximum limits set out in the insurance policy with CLIA. CLIA's liability is limited to \$1,000,000 per occurrence, and \$2,000,000 in aggregate per policy year. A deductible of \$5,000 is recoverable from the insured member at the time of claim pay-out. Until June 30, 2009 the Programme was responsible for administrative costs but did not retain any responsibility for the indemnification of claims. From July 1, 2009 onward the Programme has been responsible for administrative costs and for the indemnification of claims to specified limits. The limits per claim year are as follows:

Period	Per occurrence	In aggregate
July 1, 2009 - June 30, 2010	\$ 100,000	\$ 900,000
July 1, 2010 - June 30, 2011	100,000	1,000,000
July 1, 2011 - June 30, 2012	200,000	1,350,000
July 1, 2012 - June 30, 2013	200,000	1,375,000
July 1, 2013 - June 30, 2014	200,000	1,400,000
July 1, 2014 - June 30, 2015	300,000	1,600,000

(c) Recoveries:

Recoveries from claims and related costs from insurers and other parties are recorded when they can be reasonably estimated and collectability is reasonably assured. Otherwise, the recovery is recorded when received.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(d) Provision for unpaid claims:

Lawyers' Professional Indemnity Company (LawPRO) is an insurance company that is licensed to provide professional liability insurance and the title insurance in numerous jurisdictions across Canada. This insurance applies to acts or omissions committed by an insured in connection with his/her practice as a member of the Law Society, provided the original claim or suit for damages is brought during the policy period.

The 2003 and 2004 insurance program insures all practicing members up to \$1,000,000 per claim, after an individual deductible of at least \$5,000 per member per claim, to a maximum annual limit of \$2,000,000 per insured.

The program is responsible for all claims and legal and adjusting expenses above the members' deductible and has arranged for 90% quota share reinsurance above the members' deductible, retaining the other 10% for its own account for claims relating to 2003. For claims relating to 2004 the program has arranged for 80% quota share reinsurance above the members' deductible, retaining the other 20% for its own account. The Law Society has agreed to share equally in this 10% and 20% retention.

The determination of the provisions for unpaid claims includes reported claims, legal and adjusting fees, less recoveries.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term investments with a maturity of less than 90 days.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(f) Revenue recognition:

The Law Society follows the restricted fund method of accounting for revenue which include annual fees, admission fees, and other fees for education and trust audits, grants, and investment income. Revenue from annual fees are recognized in the general fund over the course of the calendar year. Revenue from insurance and assurance premiums are recognized in the Lawyers' Insurance Programme and General Assurance Program, respectively, as they are earned. Revenue from various other services provided by the Law Society, are recognized in the general fund over time as the services are provided. Investment income is recognized in the corresponding fund in the period in which it is earned.

Unrestricted revenue is recognized in the general fund when it is received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as revenue in the endowment fund in the period in which they are received.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized costs, unless management has elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Law Society determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Law Society expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Items subject to such assumptions include collectibility of receivables, the useful life of capital assets, reserve for claims and related costs, and provision for unpaid claims. Actual results could differ from those estimates.

(i) Capital assets:

Capital assets are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Building	Straight line	4%
Furniture and fixtures	Declining balance	25%
Computer equipment	Straight line	33%

2. Trust Account:

The Law Society holds a trust account which represents cash received from law firms for funds unclaimed in trust accounts. At the balance sheet date, the amounts received from law firms and held in trust was \$202,070 (2013 - \$196,087). The Law Society holds these funds until such time as they are claimed to a maximum period of 10 years after which unclaimed funds are turned over to the Law Foundation.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

3. Investments and marketable securities:

Fixed income investments certificates are measured at fair value which is equal to cost plus accrued interest. Equity instruments and mutual funds holdings are measured at fair value.

	2014	2013
Fixed income	\$ 12,365,006	\$ 12,231,958
Preferred shares	102,760	-
Equity investments	1,386,808	1,468,154
Mutual funds	1,916,545	1,397,923
Investments held in endowment	11,245	11,354
	\$ 15,782,364	\$ 15,109,389

Included in investment income is interest income of \$239,339 (2013 - \$179,472), dividend income of \$120,757 (2013 - \$40,019) and realized gains (losses) on the disposal of marketable securities of \$(210,216) (2013 - \$47,665).

4. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 73,429	\$ -	\$ 73,429	\$ 73,429
Building	1,935,376	968,255	967,121	1,044,537
Furniture and equipment	278,513	267,630	10,883	14,511
Computer equipment	22,110	22,110	-	7,370
	\$ 2,309,428	\$ 1,257,995	\$ 1,051,433	\$ 1,139,847

5. Claims recovery receivable:

The claims recovery receivable is non-interest bearing and is to be received in monthly installments of \$1,000 until maturity in 2019.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

6. Accounts payable and accrued liabilities:

As at December 31, 2014 there was nil (2013 - \$904) in payroll related taxes included in accounts payable and accrued liabilities.

7. Reserve for claims and related costs:

	2014	2013
Provision for claims and related costs beginning of year	\$ 3,082,626	\$ 2,347,745
Current year expense	718,748	1,279,127
Claims and related costs paid during the year	(972,072)	(544,246)
	\$ 2,829,302	\$ 3,082,626

As at December 31 2014, the outstanding claims liabilities, calculated by the Programme's actuaries in accordance with the standards of practice of the Canadian Institute of Actuaries, were as follows:

	2014	2013
Discounted damages and defence costs	\$ 1,944,105	\$ 2,193,258
Discounted adjusting and counselling fees	276,596	330,905
Discounted internal claim administration expenses	205,918	187,621
	2,426,619	2,711,784
Provision for adverse deviation	251,822	280,842
Discounted receivable	150,861	90,000
Total discounted liabilities plus provision for adverse deviation	\$ 2,829,302	\$ 3,082,626

The liabilities have been discounted at a rate of 2.6% (2013 - 2.4%). The provision for adverse deviation for 2014 and 2013 includes a margin of 25 to 200 basis points on the discount rate and 2.5% to 20% on the claims development variables. There is no active market for the trading of claims liabilities, however the present value of the actuarial claims liabilities, including provision for adverse deviation is considered an indicator of fair value.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

8. Obligations under operating leases:

The Law Society has equipment and building leases with the following annual lease payments:

2015	\$	13,138
2016		12,885
2017		7,516

9. Admission fees:

Admission fees consist of the following:

	2014	2013
Articled clerks	\$ 9,600	\$ 6,300
Call to bar	31,875	25,715
Certificate of standing	4,100	3,900
Transfers	45,000	37,500
	\$ 90,575	\$ 73,415

10. Annual fees:

Annual fees consists of the following:

	2014	2013
Assurance Fund annual membership fee	\$ 36,941	\$ 36,380
Law Society annual membership fee	1,455,619	1,430,482
Federation fees	44,330	43,600
Professional law corporation fees	33,745	29,855
Insurance premiums	883,356	871,496
	\$ 2,453,991	\$ 2,411,813

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

11. Equity in Canadian Lawyers' Insurance Program:

The Programme is a subscriber to the Canadian Lawyers' Insurance Association (CLIA), a reciprocal insurance exchange through which the law societies of six provinces and three territories (or their associated liability insurance entities) enter into agreements of mutual indemnification. CLIA maintains separate reserves for each participating entity with regards to risks assumed, and the Programme has an interest in the surpluses of these reserves. CLIA prepares annual Subscriber Accounts as of December 31, which represents the end of their fiscal year, which are reviewed and approved by CLIA's Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. The Subscribers Accounts of CLIA as of December 31, 2014 show the Programme's subscriber's equity to be \$2,090,172 (2013 - \$1,782,024) of which \$368,143 is recorded as recoverable as of December 31 2014 (2013 - nil).

12. Financial risks:

Financial instruments consist of cash, trade receivable, trust audit receivable, investments and marketable securities, accounts payable and accrued liabilities, and provision for unpaid claims. The fair values of financial instruments approximates their carrying amounts due to their short term maturity and liquidity.

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Financial instruments are primarily exposed to interest rate volatility, credit and liquidity risk.

(a) Credit risk:

Financial instruments which potentially subject the Law Society to credit risk consist primarily of cash and cash equivalents, trade receivables, and trust audit receivable. The Law Society limits the amount of credit exposure with its cash balances by only maintaining cash with major Canadian financial institutions. Credit exposure is minimized by dealing with only credit worthy counter parties.

(b) Interest rate risk:

Interest rate risk refers to the impact of future changes in interest rates on cash flows and fair values of assets and liabilities. The Law Society is not exposed to any significant interest rate risk due to the short term nature of its financial instruments.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2014

12. Financial risks (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Law Society will not be able to meet its cash requirements in a timely and cost effective manner. Liquidity requirements are managed through the receipt of funds from the Law Society's various revenue sources. These sources of funds are used to pay operating expenses and meet debt service requirements.