

Financial Statements of

**LAW SOCIETY OF
NEWFOUNDLAND AND
LABRADOR**

Year ended December 31, 2015

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Table of Contents

	Page
Independent Auditors' Report	
Balance Sheet	1
Statement of Operations	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 Members 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, 2015, 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, as at and for the years ended December 31, 2015 and December 31, 2014, any adjustments might be necessary to revenues and excess of revenues over expenses reported in the statement of earnings, excess of revenue over expenses reported in the statement of cash flows and current assets and net assets reported in the balance sheet as at December 31, 2015. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2014.

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, 2015, 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.

KPMG LLP

Chartered Professional Accountants
April 12, 2016
St. John's, Canada

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LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Balance Sheet

December 31, 2015, with comparative information for 2014

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2015	2014
Assets						
Current assets:						
Cash and cash equivalents	\$ 393,537	\$ 420,225	\$ 4,254	\$ -	\$ 818,016	\$ 1,021,640
Investments and marketable securities (note 3)	2,186,606	13,251,968	1,097,499	11,312	16,547,385	15,782,364
Accounts receivable other (note 6)	13,658	-	-	-	13,658	43,168
Trade receivable	121,552	297,603	-	-	419,155	786,803
Allowance for doubtful accounts	(10,134)	-	-	-	(10,134)	-
Prepaid expenses	7,436	173,901	30,261	-	211,598	209,617
Interfund balances	16,257	(16,257)	-	-	-	-
	2,728,912	14,127,440	1,132,014	11,312	17,999,678	17,843,592
Capital assets (note 4)	971,297	-	-	-	971,297	1,051,433
Claims recovery receivable (note 5)	-	54,000	-	-	54,000	66,000
	\$ 3,700,209	\$ 14,181,440	\$ 1,132,014	\$ 11,312	\$ 19,024,975	\$ 18,961,025
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued liabilities (note 6)	\$ 253,907	\$ 72,855	\$ -	\$ -	\$ 326,762	\$ 423,160
Provision for unpaid claims	14,400	-	-	-	14,400	20,000
Reserve for claims and related costs (note 7)	-	3,435,585	-	-	3,435,585	2,829,302
	268,307	3,508,440	-	-	3,776,747	3,272,462
Net Assets:						
General Fund	3,431,902	-	-	-	3,431,902	3,402,109
Lawyers' Insurance Programme	-	10,673,000	-	-	10,673,000	11,172,193
Assurance Fund	-	-	1,132,014	-	1,132,014	1,103,015
Endowment Fund	-	-	-	11,312	11,312	11,246
	3,431,902	10,673,000	1,132,014	11,312	15,248,228	15,688,563
Commitments (note 8)						
	\$ 3,700,209	\$ 14,181,440	\$ 1,132,014	\$ 11,312	\$ 19,024,975	\$ 18,961,025

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 Operations

Year ended December 31, 2015, with comparative information for 2014

		General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2015	2014
Revenue:							
Admission fees (note 9)	\$	96,800	-	-	-	96,800	90,575
Annual fees (note 10)		1,548,817	878,667	37,238	-	2,464,722	2,453,991
Audit program		81,196	-	-	-	81,196	84,989
Bar admission course		61,447	-	-	-	61,447	54,429
Continuing legal education		23,836	-	-	-	23,836	20,867
Grant - Law Foundation		45,000	-	-	-	45,000	76,000
Interest - membership fees		65,020	-	-	-	65,020	67,953
Investment income		60,909	328,043	29,152	66	418,170	746,371
Other income		25,614	-	-	-	25,614	94,655
Transaction levy revenue		-	864,435	-	-	864,435	893,855
Recoverable from CLIA		-	-	23,537	-	23,537	368,143
		2,008,639	2,071,145	89,927	66	4,169,777	4,951,828
General and administrative expenses:							
Salaries and benefits		1,004,571	197,951	-	-	1,202,522	1,193,714
Claims and related costs		-	1,594,279	-	-	1,594,279	718,748
CLIA premiums		-	347,213	-	-	347,213	468,155
Libraries		263,327	-	-	-	263,327	257,532
Miscellaneous expenses		183,172	30,402	-	-	213,574	217,686
Building operation		137,567	-	-	-	137,567	140,430
Discipline expense		108,442	-	-	-	108,442	140,042
Custodianship		-	201,303	-	-	201,303	116,250
Amortization		80,136	-	-	-	80,136	88,414
Benchers' convocations and receptions		58,038	-	-	-	58,038	78,521
Audit program		82,990	-	-	-	82,990	76,827
Insurance		10,282	-	60,928	-	71,210	67,163
Professional fees		25,596	18,863	-	-	44,459	51,009
Federation of Law Societies' fees		51,965	-	-	-	51,965	47,208
Professional development		65,235	-	-	-	65,235	33,314
Professional Assistance Program		-	26,625	-	-	26,625	30,366
Actuarial fees		-	33,702	-	-	33,702	30,030
Bar admission course		14,697	-	-	-	14,697	17,322
Continuing legal education		16,057	-	-	-	16,057	12,040
Administration fees		(120,000)	120,000	-	-	-	-
Provision for unpaid claims		(3,229)	-	-	-	(3,229)	(23,026)
		1,978,846	2,570,338	60,928	-	4,610,112	3,761,745
(Loss) net earnings	\$	29,793	(499,193)	28,999	66	(440,335)	1,190,083

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	2015	2014
Net assets, beginning of year	\$ 3,402,109	\$ 11,172,193	\$ 1,103,015	\$ 11,246	\$ 15,688,563	\$ 14,498,480
(Loss) net earnings	29,793	(499,193)	28,999	66	(440,335)	1,190,083
Net assets, end of year	\$ 3,431,902	\$ 10,673,000	\$ 1,132,014	\$ 11,312	\$ 15,248,228	\$ 15,688,563

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
(Loss) net earnings	\$ (440,335)	\$ 1,190,083
Items not involving cash:		
Amortization	80,136	88,414
Unrealized gain on investment	(242,875)	(580,780)
Provision on risk sharing on unpaid claims	(3,229)	(23,026)
	(606,303)	674,691
Change in non-cash operating working capital:		
Accrued income on investments and marketable securities	(141,234)	(36,167)
Accounts receivable other	29,510	26,481
Trade receivable	377,782	(345,669)
Prepaid expenses	(1,981)	114,812
Accounts payable and accrued liabilities	(96,398)	85,327
Provision for unpaid claims	(2,371)	(16,974)
Reserve for claims and related costs	606,283	(253,324)
Claims recovery receivable	12,000	12,000
	177,288	261,177
Investing:		
Proceeds from sales of investments and marketable securities	800,000	2,276,000
Purchases of investments and marketable securities	(1,180,912)	(2,332,028)
	(380,912)	(56,028)
(Decrease) increase in cash and cash equivalents	(203,624)	205,149
Cash and cash equivalents, beginning of year	1,021,640	816,491
Cash and cash equivalents, end of year	\$ 818,016	\$ 1,021,640

See accompanying notes to financial statements.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements

Year ended December 31, 2015

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, 2015

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
July 1, 2015 - June 30, 2016	300,000	1,675,000

(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, 2015

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, 2015

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, 2015

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 collectability 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 equipment	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 \$210,425 (2014 - \$202,070). 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, 2015

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.

	2015	2014
Fixed income	\$ 13,687,278	\$ 12,365,006
Preferred shares	78,560	102,760
Equity investments	678,265	1,386,808
Mutual funds	2,091,970	1,916,545
Investments held in endowment	11,312	11,245
	\$ 16,547,385	\$ 15,782,364

Included in investment income is interest income of \$240,178 (2014 - \$239,339), dividend income of \$133,505 (2014 - \$120,757) and realized losses on the disposal of marketable securities of \$(203,534) (2014 - \$(210,216)).

4. Capital assets:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 73,429	\$ -	\$ 73,429	\$ 73,429
Building	1,935,376	1,045,670	889,706	967,121
Furniture and equipment	278,513	270,351	8,162	10,883
Computer equipment	22,110	22,110	-	-
	\$ 2,309,428	\$ 1,338,131	\$ 971,297	\$ 1,051,433

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, 2015

6. Accounts payable and accrued liabilities / accounts receivable other:

As at December 31, 2015 there was nil (2014 - nil) payroll related taxes included in accounts payable and accrued liabilities. Accounts receivable other includes HST receivable for the amount of \$10,160 (2014 - \$42,118).

7. Reserve for claims and related costs:

	2015	2014
Provision for claims and related costs beginning of year	\$ 2,829,302	\$ 3,082,626
Current year expense	1,594,279	718,748
Claims and related costs paid during the year	(987,996)	(972,072)
	\$ 3,435,585	\$ 2,829,302

As at December 31 2015, 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:

	2015	2014
Discounted damages and defence costs	\$ 2,522,603	\$ 1,944,105
Discounted adjusting and counselling fees	280,169	276,596
Discounted internal claim administration expenses	240,285	205,918
	3,043,057	2,426,619
Provision for adverse deviation	326,528	251,822
Discounted receivable	66,000	150,861
Total discounted liabilities plus provision for adverse deviation	\$ 3,435,585	\$ 2,829,302

The liabilities have been discounted at a rate of 2.15% (2014 - 2.60%). The provision for adverse deviation for 2015 and 2014 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, 2015

8. Obligations under operating leases:

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

2016	\$	14,932
2017		8,739
2018		1,061

9. Admission fees:

Admission fees consist of the following:

	2015	2014
Articled clerks	\$ 10,200	\$ 9,600
Call to bar	27,500	31,875
Certificate of standing	4,100	4,100
Transfers	55,000	45,000
	\$ 96,800	\$ 90,575

10. Annual fees:

Annual fees consists of the following:

	2015	2014
Assurance Fund annual membership fee	\$ 37,238	\$ 36,941
Law Society annual membership fee	1,472,104	1,455,619
Federation fees	44,713	44,330
Professional law corporation fees	32,000	33,745
Insurance premiums	878,667	883,356
	\$ 2,464,722	\$ 2,453,991

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2015

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, 2015 show the Programme's subscriber's equity to be \$1,429,713 (2014 - \$2,090,172) of which nil is recorded as recoverable as of December 31, 2015 (2014 - \$368,143).

12. Financial risks:

Financial instruments consist of cash, trade receivable, other receivables, investments and marketable securities, accounts payable and accrued liabilities, and provision for unpaid claims. Investments and marketable securities are carried at fair value, and all other 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, other receivables, investments and marketable securities. 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. Interest rate changes directly impact the fair value of fixed income securities. Interest rate changes will also have an indirect impact on the other investments and marketable securities. The Law Society uses investment diversification to manage this risk.

LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2015

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.