

Financial Statements of

**LAW SOCIETY OF  
NEWFOUNDLAND AND  
LABRADOR**

Year ended December 31, 2017

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

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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, 2017, 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, 2017 and December 31, 2016, 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, 2017. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2016.

### *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, 2017, 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 Professional Accountants  
St. John's, Canada  
April 9, 2018

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

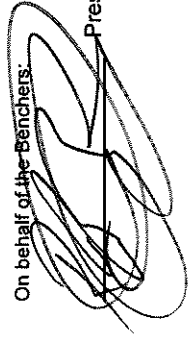
## Balance Sheet

December 31, 2017, with comparative information for 2016

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2017	2016
<b>Assets</b>							
<b>Current assets:</b>							
Cash and cash equivalents	\$ 199,679	\$ 318,288	\$ 111,780	\$ -	\$ -	\$ 629,747	\$ 874,776
Investments and marketable securities (note 4)	2,449,450	14,432,920	1,006,680	12,274	-	17,901,324	17,093,275
Accounts receivable other	34,376	-	-	-	-	34,376	273,918
Trade receivable (net of allowance of \$4,438) (2016 - \$1,400)	129,282	244,117	-	-	-	373,399	86,396
Prepaid expenses	33,615	136,818	31,745	-	-	202,178	195,578
Interfund balances	(1,551,593)	(5,473)	(200)	-	1,557,266	-	-
	1,294,809	15,126,670	1,150,005	12,274	1,557,266	19,141,024	18,523,943
Capital assets (note 5)	836,462	-	-	-	-	836,462	891,842
Claims recovery receivable (note 6)	-	51,320	-	-	-	51,320	66,972
	\$ 2,131,271	\$ 15,177,990	\$ 1,150,005	\$ 12,274	\$ 1,557,266	\$ 20,028,806	\$ 19,482,757
<b>Liabilities and Net Assets</b>							
<b>Current liabilities:</b>							
Accounts payable and accrued liabilities (note 7)	\$ 144,735	\$ 20,935	\$ -	\$ -	\$ -	\$ 165,670	\$ 433,264
Provision for unpaid claims	7,300	-	-	-	-	7,300	10,100
Reserve for claims and related costs (note 8)	-	3,831,475	-	-	-	3,831,475	3,605,610
	152,035	3,852,410	-	-	-	4,004,445	4,048,974
<b>Net Assets:</b>							
General Fund	1,979,236	-	-	-	-	1,979,236	1,794,926
Lawyers' Insurance Programme	-	11,325,580	-	-	-	11,325,580	10,929,447
Assurance Fund	-	-	1,150,005	-	-	1,150,005	1,142,392
Endowment Fund	-	-	-	12,274	-	12,274	12,018
Internally Restricted Fund (note 2)	-	-	-	-	1,557,266	1,557,266	1,555,000
Commitments (note 9)	1,979,236	11,325,580	1,150,005	12,274	1,557,266	16,024,361	15,433,783
	\$ 2,131,271	\$ 15,177,990	\$ 1,150,005	\$ 12,274	\$ 1,557,266	\$ 20,028,806	\$ 19,482,757

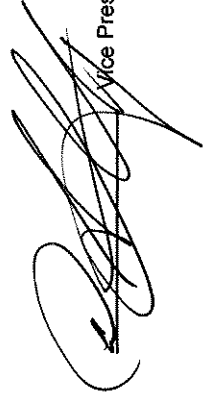
See accompanying notes to financial statements.

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, 2017, with comparative information for 2016

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2017	2016
<b>Revenue:</b>							
Admission fees (note 10)	\$ 97,200	\$ -	\$ -	\$ -	\$ -	\$ 97,200	\$ 54,325
Annual fees (note 11)	1,608,722	899,631	38,717	-	-	2,547,070	2,488,535
Audit program	77,053	-	-	-	-	77,053	83,833
Bar admission course	56,250	-	-	-	-	56,250	81,883
Continuing legal education	59,046	-	-	-	-	59,046	67,918
Grant - Law Foundation	28,200	-	-	-	-	28,200	33,200
Interest - membership fees	58,936	-	-	-	-	58,936	58,105
Investment income (note 4)	127,238	497,110	43,751	656	-	668,755	755,910
Other income	20,697	-	6	-	-	20,703	19,218
Transaction levy revenue	-	836,655	-	-	-	836,655	831,276
Recoverable from CLJA	-	-	-	656	-	-	-
	2,133,342	2,233,396	82,474	656	-	4,449,868	4,474,203
<b>General and administrative expenses:</b>							
Salaries and benefits	968,010	205,767	-	-	-	1,173,777	1,216,000
Provision for unpaid claims and related costs	(2,800)	1,049,640	-	-	-	1,046,840	1,131,048
Discipline expense	71,761	-	-	-	-	71,761	329,758
CLJA premiums	-	290,302	-	-	-	290,302	327,386
Miscellaneous expenses	224,746	24,845	(750)	-	-	248,840	242,573
Libraries	199,711	-	-	-	-	199,711	170,185
Building operation	145,587	-	-	-	-	145,587	144,815
Custodianship	-	44,703	-	-	-	44,703	131,848
Audit program	77,485	-	-	-	-	77,485	86,737
Amortization	78,945	-	-	-	-	78,945	79,455
Insurance	12,742	-	65,363	-	3,114	81,219	74,931
Professional fees	66,468	39,129	10,248	-	-	115,845	61,946
Federation of Law Societies' fees	53,378	-	-	-	-	53,378	53,144
Continuing legal education	18,193	-	-	-	-	18,193	45,134
Benchers' convocations and receptions	50,566	-	-	-	-	50,566	43,958
Professional development	31,566	-	-	-	-	31,566	42,077
Actuarial fees	-	35,781	-	-	-	35,781	34,459
PLIAN	-	-	-	-	50,000	50,000	30,000
Professional Assistance Program	-	27,096	-	-	-	27,096	26,861
Bar admission course	17,294	-	-	-	-	17,294	16,133
Scholarships	-	-	-	400	-	400	200
Administration fees	(120,000)	120,000	-	-	-	-	-
	1,893,652	1,837,263	74,861	400	53,114	3,859,290	4,288,648
<b>Net earnings (loss)</b>	\$ 239,690	\$ 396,133	\$ 7,613	\$ 256	\$ (53,114)	\$ 590,578	\$ 185,555

See accompanying notes to financial statements.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2017	2016
Net assets, beginning of year	\$ 1,794,926	\$ 10,929,447	\$ 1,142,392	\$ 12,018	\$ 1,555,000	\$ 15,433,783	\$ 15,248,228
Net earnings (loss)	239,690	396,133	7,613	256	(53,114)	590,578	185,555
Transfer to capital asset reinvestment	(55,380)	--	--	--	55,380	--	--
<b>Net assets, end of year</b>	<b>\$ 1,979,236</b>	<b>\$ 11,325,580</b>	<b>\$ 1,150,005</b>	<b>\$ 12,274</b>	<b>\$ 1,557,266</b>	<b>\$ 16,024,361</b>	<b>\$ 15,433,783</b>

See accompanying notes to financial statements.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net earnings	\$ 590,578	\$ 185,555
Items not involving cash:		
Amortization	78,945	79,455
Unrealized gain on investment	(306,961)	(442,702)
Provision for unpaid claims	(2,800)	(4,300)
	<u>359,762</u>	<u>(181,992)</u>
Change in non-cash operating working capital:		
(Increase) Decrease in accrued income on investments and marketable securities	(8,300)	22,828
Decrease (increase) in accounts receivable other	239,542	(11,063)
(Increase) decrease in trade receivable	(287,003)	73,428
(Increase) decrease in prepaid expenses	(6,600)	16,020
(Decrease) increase in accounts payable and accrued liabilities	(267,594)	106,502
Increase in reserve for claims and related costs	225,865	170,025
Decrease (increase) in claims recovery receivable	15,652	(12,972)
	<u>271,324</u>	<u>182,776</u>
Investing:		
Proceeds from sales of investments and marketable securities	1,442,400	1,369,320
Purchases of investments and marketable securities	(1,935,188)	(1,495,336)
Purchase of capital assets	(23,565)	—
	<u>(516,353)</u>	<u>(126,016)</u>
(Decrease) increase in cash and cash equivalents	(245,029)	56,760
Cash and cash equivalents, beginning of year	874,776	818,016
Cash and cash equivalents, end of year	<u>\$ 629,747</u>	<u>\$ 874,776</u>

See accompanying notes to financial statements.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Notes to Financial Statements

Year ended December 31, 2017

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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.

##### (v) Internally Restricted Fund:

Benchers restrict certain funds which are not available without approval from the Benchers.



# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 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
July 1, 2016 - June 30, 2017	300,000	1,305,000
July 1, 2017 - June 30, 2018	300,000	1,365,000

### (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, 2017

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## 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.

### (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.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 1. Significant accounting policies (continued):

### (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.

### (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 trade receivables, and claims recovery receivable, 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%

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# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 2. Internally Restricted Fund:

Internally restricted funds consist of the following:

- \$435,380 for capital asset reinvestment (2016 - \$380,000)
- \$621,886 for strategic initiatives (2016 - \$675,000)
- \$500,000 for future operations (2016 - \$500,000)

These internally restricted amounts are not available for other purposes without approval by the Benchers.

## 3. 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 \$271,767 (2016 - \$276,073). 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.

## 4. 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.

	2017	2016
Fixed income	\$ 13,256,551	\$ 13,367,528
Preferred shares	93,840	78,320
Equity investments	1,257,621	707,264
Mutual funds	3,280,931	2,928,595
Investments held in endowment	12,381	12,018
	<u>\$ 17,901,324</u>	<u>\$ 17,093,725</u>

Included in investment income is interest income of \$223,729 (2016 - \$234,210), dividend income of \$158,858 (2016 - \$136,269), unrealized gains of \$306,961 (2016 - \$442,702) and realized losses on the disposal of marketable securities of \$(35,496) (2016 - \$(57,271)).

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 5. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 73,429	\$ -	\$ 73,429	73,429
Building	1,935,376	1,200,499	734,877	812,291
Furniture and equipment	302,078	273,922	28,156	6,122
	\$ 3,310,883	\$ 1,474,421	\$ 836,462	\$ 891,842

## 6. Claims recovery receivable:

	2017	2016
Non-interest bearing receivable to be received in monthly installments of \$1,000 until maturity in 2019.	\$ 42,000	\$ 54,000
Promissory note to be received in blended monthly payments of \$400 including interest at 3.5% until March 2018 when the remaining balance is due.	25,297	29,139
	67,297	83,139
Less current portion (included in trade receivable)	15,977	16,167
	\$ 51,320	\$ 66,972

## 7. Accounts payable and accrued liabilities / accounts receivable other:

As at December 31, 2017 there was \$1,552 (2016 - \$1,707) payroll related taxes included in accounts payable and accrued liabilities and HST receivable of \$34,376 (2016 - \$24,742) included in accounts receivable other.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 8. Reserve for claims and related costs:

	2017	2016
Provision for claims and related costs		
beginning of year	\$ 3,605,610	\$ 3,435,585
Current year expense	1,049,640	1,146,328
Claims and related costs paid during the year	(823,775)	(976,303)
	\$ 3,831,475	\$ 3,605,610

As at December 31 2017, 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:

	2017	2016
Discounted damages and defence costs	\$ 2,811,173	\$ 2,643,397
Discounted adjusting and counselling fees	294,525	255,189
Discounted internal claim administration expenses	268,711	257,297
	3,374,409	3,155,883
Provision for adverse deviation	389,976	366,588
Discounted receivable	67,090	83,139
Total discounted liabilities plus provision for adverse deviation	\$ 3,831,475	\$ 3,605,610

The liabilities have been discounted at a rate of 2.50% (2016 - 2.35%). The provision for adverse deviation for 2017 and 2016 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.

## 9. Commitments:

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

2018	\$	6,653
2019		5,592
2020		5,592
2021		5,592
2022		3,727

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 10. Admission fees:

Admission fees consist of the following:

	2017	2016
Articled clerks	\$ 9,300	\$ 9,300
Call to bar	35,000	23,125
Certificate of standing	5,400	4,400
Transfers	47,500	17,500
	<u>\$ 97,200</u>	<u>\$ 54,325</u>

## 11. Annual fees:

Annual fees consist of the following:

	2017	2016
Assurance Fund annual membership fee	\$ 38,717	\$ 37,675
Law Society annual membership fee	1,529,262	1,489,514
Federation fees	46,460	45,345
Professional law corporation fees	33,000	33,517
Insurance premiums	899,631	882,484
	<u>\$ 2,547,070</u>	<u>\$ 2,488,535</u>

## 12. Equity in Canadian Lawyers' Insurance Program:

The Programme is a subscriber to the 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 Subscriber Accounts of CLIA in respect of Part A coverage as of December 31, 2017 show the Programme's subscriber's equity to be \$1,681,735 (2016 - \$1,974,013) of which nil is recorded as recoverable as of December 31, 2017 (2016 - nil). The Subscriber Accounts of CLIA in respect of Part C coverage as of December 31, 2017 show the Programme's subscriber's equity to be \$21,034 (2016 - (\$21,714)) of which nil is recorded as recoverable as of December 31, 2017 (2016 - nil).

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 13. Financial risks:

Financial instruments consist of cash and cash equivalents, accrued claims recovery, 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, accrued claims recovery, 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 and monitoring cash payments.

### (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.

### (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.