



**Financial Statements of the**  
**LAW SOCIETY OF NEWFOUNDLAND**  
**AND LABRADOR**

**and Independent Auditors' Report thereon**

**Year ended December 31, 2019**

# **LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Law Society of Newfoundland and Labrador.

### ***Qualified Opinion***

We have audited the financial statements of the Law Society of Newfoundland and Labrador (the Entity), which comprise:

- the balance sheet as at December 31, 2019
- the statement of earnings (loss) for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of and cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our auditors report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019, 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.

### ***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 verification of these revenues was limited to the amount recorded in the Lawyer's Insurance Programme.

Therefore, we are not able to determine whether any adjustments might be necessary to:

- the current assets reported in the balance sheet as at end of December 31, 2019 and end of December 31, 2018.
- the revenues and net earnings (loss) reported in the statements of earnings (loss) for the years ended end of December 31, 2019 and end of December 31, 2018.



- the unrestricted net assets, at the beginning and end of the year, reported in the statements of changes in net assets for the years ended end of December 31, 2019 and end of December 31, 2018.
- the net earnings (loss) reported in the statements of cash flows for the years ended end of December 31, 2019 and end of December 31, 2018.

Our opinion on the financial statements for the year ended December 31, 2019 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG LLP*

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Chartered Professional Accountants  
St. John's, Canada  
April 7, 2020

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Balance Sheet

December 31, 2019, with comparative information for 2018

Assets	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2019	2018
<b>Current assets:</b>							
Cash and cash equivalents	\$ 26,774	\$ 1,058,009	\$ 155,732	\$ -	\$ -	\$ 1,240,515	\$ 831,690
Investments and marketable securities (note 4)	2,425,479	14,996,269	946,354	12,435	-	18,380,537	17,687,695
Accounts receivable - other	35,939	-	-	-	-	35,939	23,242
Trade receivable (net of allowance of \$Nil) (2018 - \$572)	107,517	222,368	-	-	-	329,885	337,945
Prepaid expenses	25,261	55,569	21,975	-	-	102,805	194,561
Interfund balances	(1,370,048)	(14,041)	4	-	1,384,085	-	-
	1,250,922	16,318,174	1,124,065	12,435	1,384,085	20,089,681	19,075,133
Capital assets (note 5)	765,157	-	-	-	-	765,157	851,634
Claims recovery receivable (note 6)	-	18,937	-	-	-	18,937	35,123
Accounts receivable - other	24,368	-	-	-	-	24,368	18,865
	\$ 2,040,447	\$ 16,337,111	\$ 1,124,065	\$ 12,435	\$ 1,384,085	\$ 20,898,143	\$ 19,980,755
<b>Liabilities and Net Assets</b>							
<b>Current liabilities:</b>							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,669
Accounts payable and accrued liabilities (note 7)	179,286	23,812	104,799	-	-	307,897	184,618
Provision for unpaid claims	13,100	-	-	-	-	13,100	13,100
Reserve for claims and related costs (note 8)	-	3,267,281	-	-	-	3,267,281	3,813,297
	192,386	3,291,093	104,799	-	-	3,588,278	4,033,684
<b>Net Assets:</b>							
General Fund	1,848,061	-	-	-	-	1,848,061	1,924,146
Lawyers' Insurance Programme	-	13,046,018	-	-	-	13,046,018	11,436,209
Assurance Fund	-	-	1,019,266	-	-	1,019,266	1,106,971
Endowment Fund	-	-	-	12,435	-	12,435	11,892
Internally Restricted Fund (note 2)	-	-	-	-	1,384,085	1,384,085	1,467,853
Commitments (note 9)	1,848,061	13,046,018	1,019,266	12,435	1,384,085	17,309,865	15,947,071
	\$ 2,040,447	\$ 16,337,111	\$ 1,124,065	\$ 12,435	\$ 1,384,085	\$ 20,898,143	\$ 19,980,755

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 (Loss)

Year ended December 31, 2019, with comparative information for 2018

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2019	2018
<b>Revenue:</b>							
Admission fees (note 10)	\$ 82,575	\$ -	\$ -	\$ -	\$ -	\$ 82,575	\$ 75,500
Annual fees (note 11)	1,532,875	900,734	39,188	-	-	2,472,797	2,452,485
Audit program	85,489	-	-	-	-	85,489	82,806
Bar admission course	56,250	-	-	-	-	56,250	81,495
Continuing legal education	98,111	-	-	-	-	98,111	97,824
Grant - Law Foundation	16,500	-	-	-	-	16,500	28,200
Interest - membership fees	59,065	-	-	-	-	59,065	57,595
Investment income (note 4)	218,573	1,011,779	78,690	943	-	1,309,985	(170,113)
Other income	25,165	-	97	-	-	25,262	26,969
Transaction levy revenue	-	802,076	-	-	-	802,076	769,000
	2,174,603	2,714,589	117,975	943	-	5,008,110	3,501,761
<b>General and administrative expenses:</b>							
Salaries and benefits	1,119,969	224,705	-	-	31,400	1,376,074	1,201,948
Provision for unpaid claims and related costs	-	519,400	-	-	-	519,400	699,250
Discipline expense	49,819	-	-	-	-	49,819	103,586
CLIA premiums and assessments	-	109,864	104,799	-	-	214,663	272,697
Miscellaneous expenses	243,178	18,873	47,859	-	88,845	398,755	247,985
Libraries	196,100	-	-	-	-	196,100	195,156
Building operation	156,118	-	-	-	-	156,118	146,088
Custodianship	-	27,470	-	-	-	27,470	22,852
Audit program	96,555	-	-	-	-	96,555	96,166
Amortization	114,642	-	-	-	-	114,642	117,663
Insurance	15,653	-	51,037	-	-	66,690	76,416
Professional fees	27,872	19,199	1,985	-	-	49,056	50,886
Federation of Law Societies' fees	58,511	-	-	-	-	58,511	58,509
Continuing legal education	39,415	-	-	-	-	39,415	41,426
Benchers' convocations and receptions	62,127	-	-	-	-	62,127	82,344
Professional development	85,655	-	-	-	-	85,655	30,584
Actuarial fees	-	38,173	-	-	-	38,173	36,484
PLIAN	-	-	-	-	50,000	50,000	50,000
Professional Assistance Program	-	27,096	-	-	-	27,096	27,096
Bar admission course	19,597	-	-	-	-	19,597	21,715
Scholarships	-	-	-	400	-	400	200
Administration fees	(120,000)	120,000	-	-	-	-	-
	2,164,211	1,104,780	205,680	400	170,245	3,645,316	3,579,051
<b>Net earnings (loss)</b>	\$ 10,392	\$ 1,609,809	\$ (87,705)	\$ 543	\$ (170,245)	\$ 1,362,794	\$ (77,290)

See accompanying notes to financial statements.



# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Statement of Changes in Net Assets

Year ended December 31, 2019, with comparative information for 2018

	General Fund	Lawyers' Insurance Programme	Assurance Fund	Endowment Fund	Internally Restricted Fund (note 2)	2019	2018
Net assets, beginning of year	\$ 1,924,146	\$ 11,436,209	\$ 1,106,971	\$ 11,892	\$ 1,467,853	\$ 15,947,071	\$ 16,024,361
Net earnings (loss)	10,392	1,609,809	(87,705)	543	(170,245)	1,362,794	(77,290)
Transfer to capital asset reinvestment	(86,477)	-	-	-	86,477	-	-
<b>Net assets, end of year</b>	<b>\$ 1,848,061</b>	<b>\$ 13,046,018</b>	<b>\$ 1,019,266</b>	<b>\$ 12,435</b>	<b>\$ 1,384,085</b>	<b>\$ 17,309,865</b>	<b>\$ 15,947,071</b>

See accompanying notes to financial statements.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Net (loss) earnings	\$ 1,362,794	\$ (77,290)
Items not involving cash:		
Amortization	114,642	117,663
Unrealized gain on investment	(825,338)	650,169
Provision for unpaid claims	(546,016)	5,800
	106,082	696,342
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable - other	(12,697)	11,134
Decrease in trade receivable	8,060	35,454
Decrease in prepaid expenses	91,756	7,617
Increase in accounts receivable non-current	(5,503)	(18,865)
Increase in accounts payable and accrued liabilities	123,280	18,948
Decrease in reserve for claims and related costs	-	(18,178)
Decrease in claims recovery receivable	16,186	16,197
	327,164	748,649
Investing:		
Proceeds from sales of investments and marketable securities	2,421,833	1,460,589
Purchases of investments and marketable securities	(2,289,338)	(1,897,129)
Purchase of capital assets	(28,165)	(132,835)
	104,330	(569,375)
Increase in cash and cash equivalents	431,494	179,274
Cash and cash equivalents, beginning of year	809,021	629,747
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,240,515</b>	<b>\$ 809,021</b>
Cash and cash equivalents consists of:		
Cash and cash equivalents	\$ 1,240,515	\$ 831,690
Bank indebtedness	-	(22,669)
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,240,515</b>	<b>\$ 809,021</b>

See accompanying notes to financial statements.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

## Notes to Financial Statements

Year ended December 31, 2019

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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, 2019

## 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, 2018	300,000	1,305,000
July 1, 2018 - June 30, 2018	300,000	1,365,000
July 1, 2018 - June 30, 2019	300,000	1,500,000
July 1, 2019 - June 30, 2020	300,000	1,400,000

### (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, 2019

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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, 2019

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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%
Software	Declining balance	25%

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# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 2. Internally Restricted Fund:

Internally restricted funds consist of the following:

- \$ 506,685 for capital asset reinvestment (2018 - \$420,208)
- \$ 377,400 for strategic initiatives (2018 - \$547,645)
- \$ 500,000 for future operations (2018 - \$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 \$265,424 (2018 - \$299,493). 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.

	2019	2018
Fixed income	\$ 15,304,188	\$ 13,825,402
Preferred shares	70,400	79,161
Equity investments	2,993,463	1,213,244
Mutual funds	-	2,558,004
Investments held in endowment	12,486	11,884
	<u>\$ 18,380,537</u>	<u>\$ 17,687,695</u>

Included in investment income is interest income of \$218,009 (2018 - \$253,415), dividend income of \$187,136 (2018 - \$216,045), unrealized gains (losses) of \$825,338 (2018 - \$(650,169)) and realized gains on the disposal of marketable securities of \$79,502 (2018 - \$10,596).

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 5. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	73,429	-	73,429	\$ 73,429
Building	1,935,376	1,355,329	580,047	657,462
Furniture and equipment	430,717	340,893	89,824	111,087
Software	32,362	10,505	21,857	9,656
	\$ 2,471,884	\$ 1,706,727	\$ 765,157	\$ 851,634

## 6. Claims recovery receivable:

	2019	2018
Non-interest bearing receivable to be received in monthly installments of \$1,000.	\$ 18,000	\$ 30,000
Promissory note to be received in blended monthly payments of \$400 including interest at 3.5% until March 2020 when the remaining balance is due.	17,203	21,320
	35,203	51,320
Less current portion (included in trade receivable)	16,266	16,197
	\$ 18,937	\$ 35,123

## 7. Accounts payable and accrued liabilities:

As at December 31, 2019 there was \$3,541 (2018 - \$2,682) payroll related taxes included in accounts payable and accrued liabilities.



# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 8. Reserve for claims and related costs:

	2019		2018	
Provision for claims and related costs				
beginning of year	\$	3,813,297	\$	3,831,475
Current year expense		519,400		693,450
Claims and related costs paid during the year		(1,065,416)		(711,628)
	\$	3,267,281	\$	3,813,297

As at December 31 2019, 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:

	2019		2018	
Discounted damages and defence costs	\$	2,428,581	\$	2,845,619
Discounted adjusting and counselling fees		203,363		254,024
Discounted internal claim administration expenses		277,871		287,488
		2,909,815		3,387,131
Provision for adverse deviation		333,966		391,166
Discounted receivable		23,500		35,000
Total discounted liabilities plus provision for adverse deviation	\$	3,267,281	\$	3,813,297

The liabilities have been discounted at a rate of 2.50% (2018 - 2.50%). The provision for adverse deviation for 2019 and 2018 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:

2020	6,356
2021	5,592
2022	3,727

The organization has also committed to providing the Public Legal Information Association of NL (PLIAN) with funding in the amount of \$100,000 per year for the next three years, subject to good financial stewardship.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

## 10. Admission fees:

Admission fees consist of the following:

	2019	2018
Articled clerks	\$ 5,700	\$ 12,000
Call to bar	31,875	25,000
Certificate of standing	5,000	3,500
Transfers	40,000	35,000
	\$ 82,575	\$ 75,500

## 11. Annual fees:

Annual fees consist of the following:

	2019	2018
Assurance Fund annual membership fee	\$ 39,188	\$ 38,842
Law Society annual membership fee	1,456,050	1,440,695
Federation fees	47,025	46,530
Professional law corporation fees	29,800	31,000
Insurance premiums	900,734	895,418
	\$ 2,472,797	\$ 2,452,485

## 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 Subscribers Accounts of CLIA in respect of Part A coverage as of December 31, 2019 show the Programme's subscriber's equity to be \$1,736,725 (2018 - \$1,896,077) of which nil is recorded as recoverable as of December 31, 2019 (2018 - nil). The Subscribers Accounts of CLIA in respect of Part C coverage as at December 31, 2019 show the Programme's subscriber's equity to be \$89,145 (2018 - \$13,476), of which nil is recorded as recoverable as of December 31, 2019 (2018 - nil).

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

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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.

# LAW SOCIETY OF NEWFOUNDLAND AND LABRADOR

Notes to Financial Statements (continued)

Year ended December 31, 2019

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## 14. Subsequent events:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, the entity has experienced the following indicators of financial implications in relation to the COVID-19 pandemic.

- Declines in the fair value of investments and investment income.
- Potential impact on the provision for claims and related costs due to the economic effects of COVID-19, which could affect the cost of settling some of the claims.

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.