



Law Society
of Ontario

Barreau
de l'Ontario

Financial Statements 2023



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of Ontario

Barreau
de l'Ontario

LAW SOCIETY OF ONTARIO

2023 ANNUAL REPORT

Financial Statements

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LAW SOCIETY OF ONTARIO

2023 ANNUAL FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of Financial Performance

The Law Society of Ontario's (Society) combined financial statements report revenues exceeding expenses from operations by \$3.1 million for 2023 (2022 – expenses exceeded revenues by \$6.1 million). In addition to the positive financial results from operations, the market value of the Society's investment portfolios benefited from overall favourable financial markets in 2023. The fair value of the Society's investments experienced unrealized gains of \$5.9 million this year (2022 - unrealized losses of \$7.8 million).

The combined positive results from operations and the unrealized increase in the fair value of investments resulted in the Society ending the year with total revenues exceeding expenses by \$9.0 million (2022 – expenses exceeded revenues by \$13.9 million), with an equivalent increase in overall fund balances. The Society's 2023 budget planned for an overall reduction of \$8.7 million in fund balances.

Three key factors drove the strong financial performance:

- notable unbudgeted unrealized gains experienced in 2023 related to the portfolio investments of the General, Compensation and Errors & Omissions Insurance (E&O) Funds, as financial markets recovered from the negative volatility of 2022, with the Society not immune having experienced significant unrealized losses;
- interest rates throughout 2023 were about 2.5% higher than when the 2023 budget was developed in the summer of 2022, which led to investment returns markedly greater than budget; and
- greater use of hybrid and virtual modalities to hold meetings, hearings, functions and conduct other Society business, beyond that expected when planning the 2023 budget, led to savings.

The Society's Lawyer and Paralegal General Funds, which account for the Society's program delivery and administrative activities, ended the year with combined revenues in excess of expenses of \$5.7 million (2022 – excess of expenses over revenues of \$2.2 million). Of this amount, \$5.3 million is attributable to the positive performance on investments, both investment income and the increase in fair market value of investments in 2023. The 2023 budget incorporated funding of \$4.0 million from the fund balance of the Lawyer General Fund along with \$1.2 million in funding from cumulative surplus investment income in the E&O Fund. Similarly, the 2023 budget planned for the utilization of \$500,000 of the fund balance in the Paralegal General Fund to fund operations. The use of fund balances is based on the Society's Fund Balance Management Policy (Fund Policy) and not-for-profit budgeting best practices.

The Society ended the year with the fund balance of the Lawyer General Fund at \$39.3 million and the Paralegal General Fund with a balance of \$2.6 million.

In preparing the 2024 budget, the fund balance of the Lawyer General Fund was forecast to end the year above the maximum threshold under the Fund Policy. As a result, Convocation earmarked in the 2024 budget use of:

- \$9.2 million to fund the Business Technology and Transformation Initiative (Transformation) through a transfer of \$3.5 million and a loan of \$5.675 million to the Capital Allocation Fund, and
- \$6.0 million to fund 2024 operations and mitigate the impact on the General Fund component of the lawyer annual fee.

The Society's restricted funds are reporting combined excess of revenues over expenses of \$3.3 million in 2023 (2022 – excess of expenses over revenues of \$11.7 million), impacted predominantly by unrealized gains in the Compensation and E&O Funds' portfolio investments.

The lawyer pool of the Compensation Fund reported an excess of revenues over expenses of \$1.3 million (2022 – excess of expenses over revenues of \$9.4 million) ending the year with a fund balance of \$23 million (2022 – \$21.7 million). While the lawyer pool of the Compensation Fund notably benefited from the positive financial markets of 2023 and higher interest rates, it faced increases in the volume and severity of claims against the Fund. Historically, the Society has experienced increased claims activity a few years after an economic downturn, and early indicators are that financial pressures are on the horizon for the Fund.

The E&O Fund is reporting excess of revenues over expenses of \$1.9 million (2022 – excess expenses over revenues of \$1.8 million) primarily from the increase in fair value of its portfolio investments.

In 2023, to align with not-for-profit accounting standards, the Society changed its accounting policy related to the presentation of its investment in its subsidiaries, most notably the Lawyers' Professional Indemnity Company (LAWPRO). The Society's \$35.6 million investment in LAWPRO was previously reported on the Statement of Financial Position at cost and disclosed in the notes to the financial statements. With this change in policy, the investment in LAWPRO continues to be disclosed in the notes to the financial statements but is no longer reported on the Statement of Financial Position as an asset nor reflected in the fund balance of the E&O Fund. The change in accounting policy does not change or affect the Society's \$35.6 million investment in LAWPRO.

Statement of Revenues and Expenses & Change in Fund Balances

Revenues

Annual Fees

Total annual fee revenues are higher than last year at \$101.6 million (2022 – \$90.9 million). This is attributable to the 2023 annual fee increase of \$168 for lawyers, partially to deal with Compensation Fund claims pressures, and \$80 for paralegals, as well as continued growth in the number of full-fee equivalent paying lawyers and paralegals.

Insurance Premiums and Levies

The E&O Fund accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies decreased to \$110.0 million in 2023 (2022 – \$111.1 million). High interest rates slowed down real estate sales resulting in an \$8.8 million decrease in transaction levy revenues, a 30% drop from 2022. This reduction was partially offset by an overall increase in base premium revenues of \$7.7 million, compared to the prior year. An increase in the number of insured lawyers in Ontario and in their base premium for professional liability insurance coverage, from \$3,000 to \$3,250, led to higher insurance premium revenues.

Professional Development and Competence (PD&C)

PD&C revenues comprise licensing process and continuing professional development fees. Total PD&C revenue increased this year to \$24.0 million (2022 – \$21.7 million).

Licensing Process revenue from lawyer and paralegal candidates of \$16.6 million increased by \$2.4 million from 2022. The growth in revenue was partially anticipated as the 2023 budget incorporated an increase in candidate examination fees to address inflationary impacts on Licensing Process expenses generally, and increasing venue costs with the return to in-person examinations. In addition to this planned increase in revenue, the Licensing Process also experienced growth in the number of lawyer candidates in the program.

Investment Income

Investment returns were positively impacted in 2023 by high interest rates with investment income for the General, Compensation and E&O Funds of \$5.8 million (2022 – \$2.5 million) compared to a budget of \$2.2 million. While forecasting interest rates and investment returns is challenging during periods of inflationary pressure, the 2024 budget incorporates a conservative increase in anticipated returns.

Other Revenue

Other revenue of \$6.3 million (2022 – \$7.5 million) primarily comprises income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries. Revenue related to ordered costs varies year to year and in 2022, there were a few large recoveries in the Compensation Fund that contributed to higher revenues last year.

Expenses

Expenses of the Lawyer and Paralegal General Funds focus on operations and were \$112.7 million (2022 – \$107.0 million) against a budget of \$119.0 million. The 2023 budget was developed on the heels of the Society returning to regular business operations, post pandemic and the related restrictions. It assumed a greater resumption of in-person activities, including travel, from attendance at governance meetings to interactions with licensees and stakeholders across Ontario. The Society's experience is that there is continued demand for the flexibility of virtual and hybrid modalities to support meetings, hearings, functions, and events, which led to notable cost savings in 2023, and with the noted trend, influenced reducing the 2024 budget accordingly. Other factors influencing lower General Fund expenses include reduced fees related to the engagement of external counsel and continued labour market conditions impacting recruitment.

Professional Regulation, Tribunals and Compliance

Total regulatory expenses increased to \$33.1 million (2022 – \$32.3 million) but were less than budget. The variance from budget was driven by lower spending on counsel fees as the number of matters with external counsel declined, reduced paper document reproduction costs with an increasing shift to electronic retention supported by the Transformation and savings related to employee travel with continued use of virtual engagements where effective and appropriate.

Professional Development and Competence (PD&C)

Total PD&C expenses have increased to \$33.0 million (2022 – \$31.3 million) and were in line with budget. The Society returned to in-person licensing examinations in April 2022 and the anticipated expenses associated with this were reflected in the 2023 budget. In addition, post pandemic, the cost of venues and supporting services to administer the licensing examinations increased exponentially.

In addition to the planned increase in Licensing Process expenses, there has been a significant rise in the number of accommodated examinations to support lawyer and paralegal candidates requiring accommodation, with an increase of approximately 68% and 39%, respectively, over the past two years. This resulted in higher than budgeted costs in the lawyer and paralegal licensing process of \$1.4 million. The 2024 budget for expenses related to accommodated examinations was increased to reflect this trend, while licensing candidate fees remained unchanged. This was possible through efficiencies in examination administration that optimized the use of venues and reduce costs. Offsetting these unbudgeted costs in PD&C were savings due to lower travel costs, as a significant number of practice audits and reviews continue to be performed virtually.

Corporate Services

Corporate services expenses, primarily comprising the Client Service Centre, Information Technology, Facilities, Finance, Office of General Counsel and Human Resources, along with general corporate costs, were \$32.8 million (2022 – \$29.9 million) and were approximately \$2 million higher than budget.

Two factors, along with inflationary pressures, contributed to increased expenses over the prior year and budget. First, unbudgeted legal and expert advisory expenses to manage Ontario Line developments, most notably, external counsel to support Convocation approved litigation in early 2023. The second was increased technology subscription and sustainment costs as the Society maintained legacy systems and the first release of the Transformation. While these costs were not budgeted, savings in other areas offset the impact of these expenses and allowed the Transformation to progress faster than originally anticipated.

Convocation, Policy and Outreach

Convocation, policy and outreach expenses, primarily related to Policy, External Relations & Communications, and Governance, including benchers related expenses, increased to \$7.8 million (2022 – \$7.7 million) and were less than budget. The 2023 budget assumed a full return to in-person meetings of Convocation, Committees, Task Forces and Working Groups. In 2023, these meetings have continued in hybrid or virtual formats resulting in savings in benchers expenses and remuneration and governance functions when compared to budget. There were also further savings in stakeholder engagement, advisory groups, media relations and communications. The desire of benchers and other attendees at these meetings or events for continued virtual or hybrid participation informed the reduction of associated expenses in the 2024 budget. In addition, spending in 2023 was also lower than budget as the \$1 million contingency for unforeseen circumstances was not used this year, unlike 2022.

Services to Licensees and Public

Services to licensees and the public increased to \$6.1 million (2022 – \$5.9 million) but were less than budget. The increase from the prior year was primarily due to the Federation of Ontario Law Associations resuming its full schedule of meetings and conferences for the year since the pandemic and a budgeted increase in the support provided by the Society to the Canadian Legal Information Institute (CanLII).

Change in Fair Value of Investments

The fair market value of the Society's portfolio investments recovered notably in 2023 experiencing in year unrealized gains of \$5.9 million (2022 – unrealized losses of \$7.8 million). Of the total unrealized gains, \$1.8 million pertains to the General Funds, \$2.7 million is related to the Compensation Fund, and \$1.4 million is specific to the E&O Fund. The Society does not budget for the change in fair value of investments as it is dependent on the financial markets and therefore unpredictable.

Changes in Fund Balances

General Fund

The Lawyer General Fund experienced excess of revenues over expenses for the year of \$5.3 million and net interfund transfers to other Funds of \$3.7 million leading to an increase in the fund balance to \$39.3 million. The Society's Fund Policy establishes minimum and

maximum benchmarks of two and three months of operating expenses to be maintained as the fund balance of the Lawyer General Fund; a balance between \$18.6 million and \$27.9 million based on 2024 budgeted expenses. To bring the fund balance within the Fund Policy benchmarks, Convocation approved use of \$15.2 million to fund 2024 operations (\$6 million) and invest in the Society's future, through the Transformation (\$9.2 million).

The Paralegal General Fund ended the year with revenues exceeding expenses by \$354,000 and net interfund transfers from other Funds of \$69,000 leading to an increase in the fund balance to \$2.6 million. The Society's 2024 budget planned for the use of \$600,000 of this fund balance to fund operations.

Restricted Funds

In 2023, the excess of revenues over expenses for the year in the lawyer pool of the Compensation Fund was \$1.3 million, increasing the fund balance to \$23.0 million. The increase in the fund balance was driven by two factors. First, there was a partial rebound in the financial markets in 2023 that caused an unbudgeted increase in the fair market value of investments, resulting in unrealized gains of \$2.5 million. Second, investment returns were notably greater than budget, influenced by interest rates higher than anticipated in planning the 2023 budget. These positive investment results mitigated the pressure the lawyer pool of the Compensation Fund experienced with the provision for unpaid grants expense exceeding budget by approximately \$1.8 million due to an increase in the volume and severity of claims against the Fund.

Under the current Fund Policy, the minimum and maximum fund balance benchmarks for the lawyer pool of the Compensation Fund are \$20.4 million and \$103.3 million, respectively. The 2023 year end fund balance of \$23.0 million is \$2.6 million above the minimum benchmark. An overall downward turn in the financial markets in 2024 affecting the fair value of the Compensation Fund's portfolio investments or the continuation of increased claims activity could result in the lawyer pool of the Compensation Fund falling below the minimum fund balance benchmark. This would trigger the requirement under the Fund Policy to replenish the fund balance of the lawyer pool of the Compensation Fund over the next three fiscal years.

In 2023, the excess of revenues over expenses for the year in the paralegal pool of the Compensation Fund was \$217,000 increasing the fund balance to \$963,000. The increase was mainly the result of unrealized investment gains of \$132,000 and lower expenses related to the provision for unpaid grants. Convocation approved a Fund Policy for the paralegal pool of the Compensation Fund in 2023, with minimum and maximum benchmarks of \$143,000 and \$707,000 respectively. As the current and projected fund balance of the paralegal pool of the Compensation Fund exceeds the maximum benchmark, the Compensation Fund component of the paralegal annual fee is \$1 in the 2024 budget.

The fund balance of the E&O Fund increased from \$9.2 million at the end of 2022 to \$11.1 million at the end of 2023. The increase is attributed to revenues exceeding expenses by \$1.9 million, predominantly due to unrealized gains on portfolio investments and higher investment income.

The Capital Allocation Fund ended 2023 with a fund balance of \$10.8 million (2022 – \$15.2 million). Included in this total is \$1.8 million that is internally restricted for the Transformation (2022 – \$9.1 million). The internally restricted amounts at the end of 2023 and the planned transfer and loan from the Lawyer General Fund in 2024 are expected to fund the remaining capital investments in the Transformation. The balance of the Capital Allocation Fund is for use in ongoing capital projects including the restoration of the Benchers Wing and other critical infrastructure projects. The 2024 budget also includes the planned use of \$600,000 in uncommitted funding within the Capital Allocation Fund.

Statement of Financial Position

Portfolio Investments

Portfolio investments are shown at the fair value of \$82.8 million (2022 – \$78.2 million). The increase is attributable to the increase in the fair market value of the portfolio investments. Of the total portfolio investments, \$21.6 million pertains to the General Funds, \$40.7 million pertains to the Compensation Fund, and \$20.5 million pertains to the E&O Fund.

Loan Receivable

In 2018, the Society contributed to a subordinated syndicated loan with all other Canadian law societies to fund CanLII's purchase of all the shares of Lexum Informatique Juridique Inc. (Lexum). Lexum is a software company that operates online legal information delivery products primarily for CanLII. The \$1.7 million loan matured in 2023 and the full amount, including accrued interest, was repaid to the Society during the year.

Due to LAWPRO

Under a services agreement, LAWPRO administers the operations of the E&O Fund on behalf of the Society. At the end of 2023, the amount due to LAWPRO decreased to \$11.3 million (2022 – \$11.5 million) and relates primarily to the timing of the transfer of premiums collected in 2023 from lawyers for 2024 professional liability insurance coverage.

Provision for Unpaid Grants

The Compensation Fund liability for unpaid grants increased to \$31.9 million (2022 – \$27.8 million). The provision for unpaid grants liability in the Compensation Fund represents the estimate for unpaid claims against the Compensation Fund, supplemented by the costs for processing these claims. The increase in the provision for unpaid grants liability is due to the severity of claims in the lawyer pool of the Compensation Fund increasing coupled with added claims activity.

Conclusion

The Society has maintained solid fund balances through prudent management of operations, a strong recovery in the financial markets and the benefit of high interest rates on investments. This has allowed the Society to invest in the Transformation, the most significant operational project undertaken in years, involving a multi-year transition of all aspects of the administration of our mandate as a public interest regulator. The Transformation is an investment in business process improvements and the replacement of the Society's high-risk legacy systems, to permit the organization to continue its forward movement as a modern, proactive and risk-informed regulator. The first phase was implemented in the summer of 2023, within budget, and the second release is anticipated in 2024.

While the Society is entering the upcoming year on strong footing, like most other organizations, it is difficult to know what, if any, impact current global events and financial market volatility may have on the Society's finances. Similarly uncontrollable is Compensation Fund claims activity. The lawyer pool of the Fund is facing pressure with an increase in both the volume and the severity of claims, and this trend is expected to continue based on regulatory activity in the first quarter of 2024.

Despite these uncertainties, the Society continues to be in a financially sound position with its Fund Balance Management Policies mitigating the impact of unforeseen circumstances. With strong fund balances, the Society is positioned for 2024 to fulfill its important regulatory work in the public interest, continue moving forward with the Transformation, and implement Convocation policy decisions such as Family Legal Services Provider licensure and the Foundations of Sole Practice program.



Independent auditor's report

To the Members of the Law Society of Ontario

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Law Society of Ontario (the Law Society) as at December 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Law Society's financial statements comprise:

- the statement of financial position as at December 31, 2023;
- the statement of revenues and expenses and change in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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 Law Society'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 Law Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Law Society'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 auditor's 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 these 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 Law Society'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 Law Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Law Society 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.

We 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 25, 2024

Statement of Financial Position

Stated in thousands of dollars

As at December 31

Assets

	2023	2022 (note 3)
Current Assets		
Cash (note 10)	36,828	34,211
Short-term investments	20,620	23,083
Accounts receivable (notes 4 and 9)	14,157	14,210
Prepaid expenses	4,206	2,943
Loan receivable (note 7)	-	1,701
Total current assets	75,811	76,148
Portfolio investments (note 6)	82,809	78,153
Capital assets (note 8)	8,084	7,611
Intangible assets (note 8)	10,143	3,003
Total Assets	176,847	164,915
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities (notes 5 and 9)	12,164	11,642
Deferred revenue	4,721	6,676
Due to LAWPRO (note 4)	11,259	11,460
Total current liabilities	28,144	29,778
Provision for unpaid grants/claims	31,875	27,778
Unclaimed trust funds (note 10)	8,341	7,801
Lease obligations	707	781
Total Liabilities	69,067	66,138
<i>Other trust funds (note 11), Commitments (note 16), and Contingent liabilities (note 17)</i>		
Fund Balances		
General funds		
Lawyers	39,343	37,746
Paralegals	2,585	2,162
Restricted funds		
Compensation - lawyers	23,034	21,705
Compensation - paralegals	963	746
Errors and omissions insurance (note 3)	11,086	9,143
Capital allocation	10,810	15,191
Invested in capital and intangible assets	18,227	10,614
County libraries	222	177
Other	1,510	1,293
Total Fund Balances	107,780	98,777
Total Liabilities and Fund Balances	176,847	164,915

The accompanying notes are an integral part of these financial statements

On behalf of Convocation



Treasurer



Chair, Audit and Finance Committee

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the year ended December 31

	2023	2022	2023	2022	2023	2022 (note 3)	2023	2022 (note 3)
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
Annual fees	77,116	72,489	6,750	6,064	17,757	12,364	101,623	90,917
Insurance premiums and levies	-	-	-	-	109,951	111,077	109,951	111,077
Professional development and competence	21,061	18,347	2,924	3,400	-	-	23,985	21,747
Investment income	3,096	1,196	392	115	2,320	1,142	5,808	2,453
Other (note 12)	4,705	4,848	557	579	1,009	2,023	6,271	7,450
Total revenues	105,978	96,880	10,623	10,158	131,037	126,606	247,638	233,644
Expenses								
Professional regulation, tribunals and compliance	31,217	30,501	1,840	1,762	-	-	33,057	32,263
Professional development and competence	29,368	27,159	3,662	4,145	-	-	33,030	31,304
Corporate services	29,011	26,497	3,793	3,377	-	-	32,804	29,874
Convocation, policy and outreach (note 13)	7,018	6,952	735	736	-	-	7,753	7,688
Services to licensees and public	5,613	5,495	438	403	-	-	6,051	5,898
Restricted (note 19)	-	-	-	-	131,799	132,750	131,799	132,750
Total expenses	102,227	96,604	10,468	10,423	131,799	132,750	244,494	239,777
Excess of revenues over expenses (expenses over revenues) from operations	3,751	276	155	(265)	(762)	(6,144)	3,144	(6,133)
Change in fair value of investments	1,574	(1,959)	199	(248)	4,086	(5,583)	5,859	(7,790)
Excess of revenues over expenses (expenses over revenues)	5,325	(1,683)	354	(513)	3,324	(11,727)	9,003	(13,923)
Fund balances, beginning of year	37,746	38,333	2,162	2,685	58,869	71,682	98,777	112,700
Interfund transfers (noted 2 and 14)	(3,728)	1,096	69	(10)	3,659	(1,086)	-	-
Fund balances, end of year	39,343	37,746	2,585	2,162	65,852	58,869	107,780	98,777

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows

Stated in thousands of dollars

As at December 31

Net inflow (outflow) of cash related to the following activities	2023	2022
Operating		
Excess of revenues over expenses (expenses over revenues)	9,003	(13,923)
Items not affecting cash:		
Amortization of capital assets	1,474	1,307
Amortization of intangible assets	1,423	1,406
Loss on disposal of capital and intangible assets	23	25
Unrealized losses (gains) on investments	(5,860)	7,502
Reinvested investment income	(2,883)	(1,392)
Lease obligations	(74)	(17)
Net change in non-cash operating items:		
Accounts receivable	53	178
Prepaid expenses	(1,263)	(445)
Accounts payable and accrued liabilities	522	1,312
Provision for unpaid grants/claims	4,097	7,009
Due (to)/from LAWPRO	(201)	4,633
Deferred revenue	(1,955)	(363)
Fund contribution - unclaimed trusts	540	692
Cash from operating activities	4,899	7,924
Investing		
Loan receivable	1,701	-
Purchase of short-term investments	(3,750)	(7,000)
Proceeds from disposal of short-term investments	7,000	-
Proceeds from disposal of portfolio investments	3,300	-
Capital asset and intangible asset additions	(10,533)	(4,030)
Cash used in investing activities	(2,282)	(11,030)
Net inflow (outflow) of cash, during the year	2,617	(3,106)
Cash, beginning of year	34,211	37,317
Cash, end of year	36,828	34,211

The accompanying notes are an integral part of these financial statements

LAW SOCIETY OF ONTARIO

Notes to Financial Statements, December 31, 2023

Stated in whole dollars except where indicated

1. Background

The Law Society of Ontario (Society) was founded in 1797 and incorporated in 1822 with the enactment of the *Law Society Act*.

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

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

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

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

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

The primary sources of revenues are licensee annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society. As at December 31, 2023, lawyers entitled to practice law and paralegals entitled to provide legal services in Ontario numbered approximately 59,000 and 11,100 respectively.

The Society is not subject to federal or provincial income taxes.

2. Nature of Financial Statements

These financial statements present the financial position and operations of the Society and include the General Funds and a number of special purpose funds restricted by the *Law Society Act* or Convocation.

Subsidiaries and Related Entity

The Society has two wholly-owned subsidiaries: Lawyers' Professional Indemnity Company (LAWPRO), and LiRN Inc. (LiRN) and a related entity, The Law Society Foundation. The audited annual financial statements for these three entities are available separately.

General Funds

The General Funds account for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. These Funds report unrestricted resources.

The Society's policy is to maintain the Lawyer General Fund balance at no less than two and no more than three months of Lawyer General Fund budgeted expenses.

If the Lawyer General Fund balance exceeds three months of budgeted Lawyer General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- mitigate the Lawyer General Fund component of the annual fee for the next fiscal year;
- transfer the excess to another Society Fund.

If the Lawyer General Fund balance is less than two months of budgeted Lawyer General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal years.

If the Lawyer General Fund balance is more than two months of budgeted Lawyer General Fund expenses and less than three months of budgeted Lawyer General Fund expenses, Convocation may appropriate funds from the Lawyer General Fund balance for one or more of the following:

- mitigate the Lawyer General Fund component of the annual fee for the next fiscal year;
- transfer the excess to another Society Fund.

As at December 31, 2023, the fund balance of the Lawyer General Fund was \$39,343,000 (2022 – \$37,746,000).

The Lawyer General Fund balance as of December 31, 2023 exceeds three months of budgeted Lawyer General Fund expenses. The 2024 budget plans for the use of \$6,000,000 of the Lawyer General Fund balance to mitigate the Lawyer General Fund component of the annual fee in 2024.

Convocation also approved through the 2024 budget the use of available fund balance in the Lawyer General Fund to support funding the Business and Technology Transformation Initiative (Transformation); an organization-wide project to transform the Society's business processes and technology infrastructure. The 2024 approved budget incorporates a transfer of \$3,500,000 from the Lawyer General Fund to the Capital Allocation Fund and provides for a loan of up to \$5,675,000 from the Lawyer General Fund to the Capital Allocation Fund, both restricted to fund the Transformation. Funds to repay the loan from the Lawyer General Fund may be raised through the Capital Allocation Fund over the next few years.

As at December 31, 2023, the fund balance of the Paralegal General Fund was \$2,585,000 (2022 – \$2,162,000).

The 2024 budget plans for the use of \$600,000 of the Paralegal General Fund balance to mitigate the Paralegal General Fund component of the annual fee in 2024.

Restricted Funds


Compensation Fund

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

Pursuant to the *Law Society Act*, the Compensation Fund is supported by licensee annual fees, investment income and recoveries. The Compensation Fund expenses are only for payment of grants, and direct program delivery and administration costs. There are separate restricted funds maintained to manage claims pertaining to lawyer licensees and paralegal licensees.

In 2023, the Society engaged an actuarial firm to complete stochastic modelling using historical claims data pertaining to the paralegal pool of the Compensation Fund. Convocation approved establishing a fund balance management policy for the paralegal pool of the Compensation Fund similar to the policy in place since 2013 that governs the lawyer pool of the Fund.

The Society's fund balance management policy is to maintain each separate pool of the Compensation Fund balance at an amount sufficient to provide for a minimum of one 97.5th percentile aggregate claim scenarios (one-in-forty-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred-year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years. A review of the lawyer pool was conducted in 2023 and Convocation approved updated minimum and maximum policy benchmarks for that pool of the Compensation Fund.



If the fund balance of a pool (lawyer or paralegal) of the Compensation Fund exceeds four one-in-one-hundred-year events for the specific pool, Convocation shall utilize some or all of the excess for the following:

- mitigation of the Compensation Fund component of the annual fee for the specific pool for the next fiscal year;
- annual mitigation of the Compensation Fund component of the annual fee for the specific pool shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the fund balance of a pool of the Compensation Fund is less than the minimum of one one-in-forty-year event, Convocation shall budget for an annual surplus to restore the fund balance of the specific pool to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal years.

If the fund balance of a pool of the Compensation Fund is more than the minimum of one one-in-forty-year event and less than four one-in-one-hundred-year events, Convocation may:

- mitigate the Compensation Fund component of the annual fee for the specific pool for the next fiscal year;
- budget for a surplus sufficient to increase the fund balance of the specific pool to the maximum policy objective of four one-in-one-hundred-year events;
- leave the fund balance for the specific pool at its current balance for the upcoming fiscal year.

As at December 31, 2023, the fund balance of the lawyer pool of the Compensation Fund was \$23,034,000 (2022 – \$21,705,000) and is within the minimum and maximum fund balance policy benchmarks of \$20,400,000 and \$103,300,000, respectively.

As at December 31, 2023, the fund balance of the paralegal pool of the Compensation Fund was \$963,000 (2022 – \$746,000). The minimum and maximum fund balance policy benchmarks are \$143,000 and \$707,000, respectively. The balance of the paralegal pool of the Compensation Fund as of December 31, 2023 exceeds the maximum policy benchmark. The 2024 budget reduces the component of the annual fee for the paralegal pool of the Compensation Fund to \$1.

The statement of financial position for the Compensation Fund, lawyer and paralegal pools combined, is set out below:

(\$000s)	2023	2022
Cash and short-term investments	15,213	11,930
Accounts receivable	26	1,331
Portfolio investments	40,683	37,027
Total assets	55,922	50,288
Accounts payable and accrued liabilities	51	59
Provision for unpaid grants – lawyers	31,566	27,424
Provision for unpaid grants – paralegals	308	354
Total liabilities	31,925	27,837
Fund balance – lawyers	23,034	21,705
Fund balance – paralegals	963	746
Total liabilities and fund balances	55,922	50,288

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund (E&O Fund) accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses. A portion of the fund balance serves as a backstop for potential self-insured corporate errors and omissions claims.

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

As at December 31, 2023, the fund balance of the E&O Fund was \$11,086,000 (2022 – \$9,143,000).

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital and intangible assets, which comprise buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. As at December 31, 2023, the fund balance was \$10,810,000 (2022 – \$15,191,000). Within the Capital Allocation Fund, \$1,784,000 (2022 – \$9,100,000) is internally restricted by Convocation for the purpose of the Transformation.

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Society's capital assets and intangible assets, specifically acquisitions, amortization, and disposals. As at December 31, 2023, the balance was \$18,227,000 (2022 – \$10,614,000), representing the net book value of the Society's capital and intangible assets.

County Libraries Fund

The County Libraries Fund records transactions related to the Society's support of county law libraries. As approved by Convocation, the Fund accumulates revenues generated from lawyer annual fees specific for county library and legal information resource network purposes, which are used to fund grants to LiRN. The fund balance as at December 31, 2023 was \$222,000 (2022 – \$177,000).

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. As at December 31, 2023, the fund balance was \$265,000 (2022 – \$134,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects. The fund balance as at December 31, 2023 was \$852,000 (2022 – \$792,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (PLAP) and is funded by lawyers' annual fees. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who, amongst other criteria, have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under PLAP, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. As at December 31, 2023, the fund balance was \$393,000 (2022 – \$367,000).

3. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting (Part III).

Change in Accounting Policy

In 2023, the Society changed its accounting policy regarding the presentation of its investment in its wholly-owned subsidiaries, LAWPRO and LiRN. In prior years, the Society recorded its investment of \$35,642,000 and \$100 in LAWPRO and LiRN, respectively, at cost along with disclosure in the notes to the financial statements. The Society is no longer reporting its total investment of \$35,642,100 as a non-current asset nor as part of the fund balances of the Errors and Omissions Fund (\$35,642,000) and County Libraries Fund (\$100) on the Statement of Financial Position. This change in accounting policy was applied retrospectively. The history and nature of the Society's investment in LAWPRO and LiRN are provided in Note 4.

Financial instruments

The Society's financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

Asset / Liability	Measurement
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed-income and Canadian and global equity pooled funds. Transaction costs are expensed as incurred. The carrying values of accounts receivable, loan receivable, accounts payable and accrued liabilities, and unclaimed trust funds approximate fair value due to their nature or capacity for prompt liquidation.

Interest rate risk

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society's investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 10 years. The Society has no material interest-bearing liabilities.

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

Market risk

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy, which requires a diversified portfolio of government bonds, corporate bonds and Canadian and global equities meeting specified quality requirements.

Currency risk

The Society is exposed to currency risk with respect to its portfolio investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

At year-end, the maximum exposure of the Society to foreign currency risk in portfolio investments was \$20,942,000 (2022 – \$18,866,000).

Credit risk

Credit risk is the possibility that other parties may default on their financial obligations. At year-end, the maximum exposure of the Society to credit risk in cash, short and long-term fixed income investments was \$108,603,000 (2022 – \$108,415,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions, and commercial paper with investment grade ratings.

At year-end, the maximum exposure of the Society to credit risk in accounts receivable was \$14,157,000 (2022 – \$14,210,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

Cash and short-term investments

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

Portfolio investments

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building and leasehold improvements	Lesser of 10 years or term of lease
Furniture, equipment and computer hardware	3 to 5 years

Intangible assets

Intangible assets comprising computer applications and software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful life of the asset ranging from three to ten years.

Revenue recognition

Annual licensee fees, insurance premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated, and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Insurance premiums related to the unexpired term of coverage at the statement of financial position date are reported as deferred revenue.

Professional development and competence revenues are recognized in the year to which they relate if the amount can be reasonably estimated, and collection is reasonably assured. Fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year.

Other revenues and realized investment gains/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees, insurance premiums and other revenues receivable are recorded as accounts receivable on the statement of financial position, net of any provision for doubtful amounts.

Provision for unpaid grants

Pursuant to section 51(5) of the *Law Society Act*, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of \$150,000 for claims incurred before September 22, 2016 and \$500,000 thereafter. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants and administrative expenses.

Provisions for unpaid grants are recorded as liabilities on the statement of financial position. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries.

Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 4.17% (2022 – 4.39%).

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

Volunteer services

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, or achieve ex-officio or emeritus status based on past service.

Elected and ex-officio benchers are remunerated for adjudication and authorization activities. They are only remunerated for eligible governance work after voluntarily contributing time on 26 unique calendar days. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

4. Investment in Subsidiaries

LAWPRO

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period. In addition to providing mandatory professional liability insurance to lawyers, LAWPRO also sells optional excess professional liability and title insurance.

Paralegals obtain professional liability insurance coverage through independent insurance companies.

Investment in LAWPRO

The Society's total investment of \$35,642,000 in LAWPRO comprises:

30,000 common shares of par value of \$100 each	3,000,000
20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of \$100 each	2,000,000
Investment in LAWPRO shares	5,000,000
Contributed capital	30,642,000
Total investment	35,642,000

LAWPRO was incorporated by the Society in 1990. The Society holds 20,000 redeemable preferred shares and 30,000 common shares of at a total cost of \$5,000,000.

In June 1994, Convocation established the Insurance Task Force and the Insurance Committee on the Operation of the Society's Errors and Omissions Insurance Program ("Task Force"). The Task Force mandate was to identify and report on the amount and implications of the insurance deficit and the nature of E&O operation.

In late 1994, Convocation received the Task Force's report (Report) and approved its recommendation to establish a special levy for the capitalization of LAWPRO, to address a significant deficit in the E&O Fund. The Report described the capitalization effort as an investment by all lawyers and that the investment would be reflected on the Society's statement of financial position. The Report, as approved by Convocation, anticipated that once LAWPRO was fully funded, the Society could require LAWPRO to repay the capital investment or earn a return on the investment with receipt of either used by the Society for its general purposes. Between 1995 and 1997, the Society transferred a total of \$30,642,000 to LAWPRO for the capitalization. To date, no arrangement has been entered into between the Society and LAWPRO for the return of capital.

Summarized below is the financial information of LAWPRO. LAWPRO prepares their financial statements under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. There are significant differences between IFRS and accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting including the accounting for leases and for unrealized gains and losses and other items that are reflected through the statement of comprehensive income of LAWPRO.

In 2023, LAWPRO adopted revised IFRS Accounting Standards, specifically, IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments that were mandatory and effective for annual reporting periods that begin on or after January 1, 2023. As a result, certain comparative information as of December 31, 2022 was restated and is reflected in the summarized statements.

Summarized statement of financial position of LAWPRO:

(\$000s)	2023	2022
Total assets	773,233	752,714
Total liabilities	472,744	473,265
Total shareholders equity	300,489	279,449
Total liabilities and shareholders equity	773,233	752,714

Summarized statement of profit (loss) of LAWPRO for the year ended December 31:

(\$000s)	2023	2022
Insurance revenue	123,526	147,168
Insurance and other expenses	(147,135)	(134,052)
Investment Income (loss)	53,026	(39,164)
Profit (loss) before taxes	29,417	(26,048)
Income tax (expense) recovery	(8,047)	7,134
Profit (loss)	21,370	(18,914)
Other comprehensive (income) loss net of tax	330	1,557
Comprehensive income (loss)	21,040	(17,357)

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

(\$000s)	2023	2022
Net cash inflow from operating activities	4,774	4,634
Net cash inflow from investing activities	1,458	7,055
Net cash outflow from financing activities	(451)	(421)
Cash and cash equivalents, beginning of year	35,741	24,473
Cash and cash equivalents, end of year	41,522	35,741

LAWPRO administers the operations of the E&O Fund on behalf of the Society at no charge under an administrative services agreement. LAWPRO billed the Society \$109,951,000 (2022 – \$111,077,000) for premiums during the year. LAWPRO contributed \$555,000 (2022 – \$575,000) to the Society towards directors' fees for benchers appointed to the LAWPRO Board and a wellness program available to licensees. These transactions are entered in the ordinary course of business and are measured at exchange value. Included in the Society's financial statements are amounts due to LAWPRO of \$11,259,000 (2022 – \$11,460,000). The amounts due to LAWPRO are non-interest bearing and have no fixed terms of repayment.

LiRN

LiRN, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines, and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LiRN was incorporated under the *Business Corporations Act (Ontario)* in 2001 and at the beginning of 2020, Articles of Amendment were filed to rename LibraryCo. Inc. as LiRN Inc.

The Society holds all of the 100 common shares at a total cost of \$100. Of the 100 special shares, 25 are held by the Toronto Lawyers Association (TLA) and 75 are held by the Federation of Ontario Law Associations (FOLA). The independent skills-based board of directors of LiRN is appointed based on the recommendations of a Nominating Committee comprised of three members from the Society, two members from FOLA and one member from TLA.

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

Summarized statement of financial position of LiRN:

(\$000s)	2023	2022
Total assets	1,982	1,041
Total liabilities	829	179
Total share capital and fund balances	1,153	862
Total liabilities, share capital and fund balances	1,982	1,041

Summarized statement of revenues and expenses for LiRN for the year ended December 31:

(\$000s)	2023	2022
Total revenues	9,656	9,290
Total expenses	9,610	9,123
Excess of revenues over expenses from operations	46	167
Recovery of excess prior year county libraries grant funding	245	-
Excess of revenues over expenses	291	167

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

(\$000s)	2023	2022
Net cash inflow from operating activities	937	239
Cash, beginning of year	967	728
Cash, end of year	1,904	967

The Society provided LiRN with a grant of \$9,572,000 (2022 – \$9,270,000) during the year. The Society provides some administrative services to LiRN as well as certain other services and publications. The total amount billed by the Society for 2023 was \$33,000 (2022 – \$26,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LiRN of \$4,000 (2022 – \$1,000).

5. Related Entity

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

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

The Society provides facilities and certain administration services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society's accounts are amounts due to the LSF of \$5,000 (2022 – \$4,000).

6. Portfolio Investments

(\$000s)	2023	2022
Debt securities	51,155	49,420
Canadian equities	10,712	9,867
Global equities	20,942	18,866
Total portfolio investments	82,809	78,153

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

	2023	2022
Effective interest rates (%)	3.1 - 7.6	3.2 – 11.5
Maturity dates (years)	0 - 9	1 - 10

7. Loan Receivable

Canadian Legal Information Institute (CanLII) is a not-for-profit organization established by the Federation of Law Societies to provide access to judicial decisions and legislative documents on the internet. Lexum Informatique Juridique Inc. (Lexum) is a software company that operates online legal information delivery products, primarily for CanLII. CanLII purchased all the shares of Lexum in 2018. The Society contributed \$878,000 to a subordinated syndicated loan with all the other Canadian law societies as part of the funding of this purchase in 2018 and three installments of balance of sale payments totalling \$823,000 from 2019 to 2021. The loan and all accrued interest were repaid by CanLII in May 2023.

8. Capital Assets and Intangible Assets

Capital Assets (\$000s)	2023			2022
	Cost	Accumulated amortization	Net	Net
Land and buildings	25,395	25,395	-	-
Building and leasehold improvements	32,313	24,808	7,505	6,961
Furniture, equipment and computer hardware	2,520	1,941	579	650
Total capital assets	60,228	52,144	8,084	7,611

	2023			2022
	Cost	Accumulated amortization	Net	Net
Computer applications and software	19,115	8,972	10,143	3,003
Total intangible assets	19,115	8,972	10,143	3,003

In 2022, the Society received a Notice of Possession under the *Expropriations Act* (R.R.O. 1990, Reg. 363) advising that title to a portion of its land, located at the northeast corner of Queen Street West and University Avenue in Toronto, had vested in Metrolinx for the purpose of constructing the Ontario Line subway. Metrolinx took possession of the designated portion of land on November 30, 2022. Compensation to the Society from Metrolinx for the expropriated land remains to be determined and cannot be estimated at this time.

9. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts receivable, accounts payable and accrued liabilities is \$919,988 due from government remittances, primarily sales taxes (2022 – \$935,305).

The accounts receivable balance comprises:

(\$000s)	2023	2022
Accounts receivable	49,658	46,719
Allowance for doubtful accounts	(35,501)	(32,509)
Accounts receivable – net	14,157	14,210

The allowance for doubtful accounts mainly relates to annual fees, regulatory compliance ordered costs and licensing process fees.

10. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a licensee who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the *Law Society Act* enabling the Society to recover its expenses associated with maintaining these funds, net interest income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$8,341,000 (2022 – \$7,801,000).

11. Other Trust Funds

The Society administers client funds for licensees under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the statement of financial position. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. As at December 31, 2023, total funds held in trust amount to \$6,679,000 (2022 – \$3,639,000).

12. Other Revenues

Other Revenues primarily comprise income from *Ontario Reports* royalties, administrative fees, and regulatory compliance ordered cost recoveries.

13. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio and lay benchers during the year of \$425,000 (2022 – \$606,000). The total expense reimbursements of the elected, ex-officio and lay benchers during the year was \$164,000 (2022 – \$130,000). The Treasurer's honorarium expense for the year was \$233,000 (2022 – \$224,000).

14. Interfund Transfers

During the year, the following net interfund transfers took place, which have been approved by Convocation:

- \$10,533,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;
- \$3,500,000 from the Lawyer General Fund to the Capital Allocation Fund as part of the 2023 budget, restricted to fund the Transformation;
- \$230,000 from the Lawyer General Fund to the Special Projects Fund related to the development of the Foundations of Sole Practice course;
- \$114,000 from the Special Projects Fund to the General Funds to fund bench election expenses incurred in 2023;
- \$100,000 from the Lawyer General Fund to the Repayable Allowance Fund, as provided in the 2023 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$57,000 from the Special Projects Fund to the Paralegal General Fund related to the development of the Family Legal Services Provider licence.


15. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elects to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2023 amounted to \$3,168,150 (2022 – \$2,989,540).

16. Commitments

The Society is committed to monthly lease payments for basic and additional rent for property under leases having various terms up to February 2028 and to annual minimum payments for software licences with the agreement ending in 2028. Aggregate minimum annual payments to the expiry of the agreement are approximately as follows:

2024	\$3,441,000
2025	\$3,565,000
2026	\$3,677,000
2027	\$3,689,000
2028	\$887,000
Total	\$15,259,000



In 2021, the Society received a request from the Law Commission of Ontario (LCO) for continued funding in support of its mandate. The LCO's request is for annual contributions from the Society over a four-year period beginning in 2022. Convocation approved the Society's contribution of \$160,000 for 2023 through its budget process.

17. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

18. Comparative Figures

Certain of the prior year balances have been reclassified to conform to the current year's presentation.

19. Schedule of Restricted Funds

Stated in thousands of dollars
For the year ended December 31

	2023							2022 (note 3)	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total	Total
	Lawyer	Paralegal							
Fund balances, beginning of year (note 3)	21,705	746	9,143	15,191	10,614	177	1,293	58,869	71,682
Revenues									
Annual fees	4,328	71	-	3,641	-	9,617	100	17,757	12,364
Insurance premiums and levies	-	-	109,951	-	-	-	-	109,951	111,077
Investment income	1,724	91	505	-	-	-	-	2,320	1,142
Other	316	-	-	626	-	-	67	1,009	2,023
Total revenues	6,368	162	110,456	4,267	-	9,617	167	131,037	126,606
Total expenses	7,555	77	109,951	1,615	2,920	9,572	109	131,799	132,750
Excess of revenues over expenses (expenses over revenues) from operations	(1,187)	85	505	2,652	(2,920)	45	58	(762)	(6,144)
Change in fair value of investments	2,516	132	1,438	-	-	-	-	4,086	(5,583)
Excess of revenues over expenses (expenses over revenues)	1,329	217	1,943	2,652	(2,920)	45	58	3,324	(11,727)
Interfund transfers	-	-	-	(7,033)	10,533	-	159	3,659	(1,086)
Fund balances, end of year	23,034	963	11,086	10,810	18,227	222	1,510	65,852	58,869



Law Society
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