



**The Law Society
of Manitoba**

INCORPORATED 1877 | INCORPORÉ EN 1877

Financial Statements
March 31, 2021



INDEPENDENT AUDITOR'S REPORT

To the Members of the Law Society of Manitoba

Opinion

We have audited the financial statements of the Law Society of Manitoba (the "Organization"), which comprise the statement of financial position as at March 31, 2021, and the statements of operations and changes in equity of the General Fund, Reimbursement Fund, Professional Liability Claims Fund, Education and Competence Fund, and Endowment and Trust funds and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Law Society of Manitoba as at March 31, 2021, 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 ("ASNPO").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). 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 are independent of the Organization 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 opinion.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 GAAS 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 GAAS, 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 Organization'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 Organization'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 Organization 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.

Deloitte LLP

Chartered Professional Accountants

June 17, 2021
Winnipeg, Manitoba

TABLE OF CONTENTS

	<u>Page</u>
Statement of Financial Position	1
Statement of General Fund Operations and Changes in Equity	2
Statement of Reimbursement Fund Operations and Changes in Equity	3
Statement of Professional Liability Claims Fund Operations and Changes in Equity	4
Statement of Education and Competence Fund Operations and Changes in Equity	5
Statement of Endowment and Trust Funds Operations and Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 16

THE LAW SOCIETY OF MANITOBA
Statement of Financial Position
As at March 31, 2021

	2021						2020 Total
	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Fund	Endowment and Trust Funds	Total	
ASSETS							
Cash and term deposits	\$ 5,263,350	\$ -	\$ -	\$ -	\$ -	\$ 5,263,350	\$ 4,548,739
Funds held in trust	544,593	-	-	-	-	544,593	491,722
Accounts and accrued interest receivable	489,935	384	20,413	5,103	-	515,835	649,972
Due from The Manitoba Law Library Inc.	218,835	-	-	-	-	218,835	502,605
Prepaid expenses	70,903	56,876	243,493	4,963	-	376,235	251,782
Investments (Note 4)	-	461,241	24,542,686	-	5,000	25,008,927	22,720,451
Deferred charge - pension plan (Note 10)	8,398,527	-	-	-	-	8,398,527	4,261,998
Loans receivable	690,840	-	-	-	-	690,840	676,709
Capital assets (Note 5)	525,359	-	-	-	-	525,359	713,780
	\$ 16,202,342	\$ 518,501	\$ 24,806,592	\$ 10,066	\$ 5,000	\$ 41,542,501	\$ 34,817,758
LIABILITIES AND FUND EQUITY							
Accounts payable and accrued liabilities	\$ 719,843	\$ 16,441	\$ 55,823	\$ 23,738	\$ -	\$ 815,845	\$ 618,095
Funds held in trust	544,593	-	-	-	-	544,593	491,722
Fees and assessments paid in advance	2,249,851	641,939	668,211	209,269	-	3,769,270	2,843,908
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	7,337,778	-	-	7,337,778	7,192,861
Deferred lease incentives (Note 6)	727,169	-	-	-	-	727,169	857,781
Due to (from) other funds	615,797	(2,434,558)	3,859,956	(2,037,992)	(3,203)	-	-
	4,857,253	(1,776,178)	11,921,768	(1,804,985)	(3,203)	13,194,655	12,004,367
COMMITMENTS (NOTE 12)							
FUND EQUITY							
General Fund	11,345,089	-	-	-	-	11,345,089	6,998,783
Reimbursement Fund (Note 8)	-	2,294,679	-	-	-	2,294,679	2,501,740
Professional Liability Claims Fund (Note 7)	-	-	12,884,824	-	-	12,884,824	11,504,845
Education and Competence Fund	-	-	-	1,815,051	-	1,815,051	1,799,893
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	6,015	6,015	5,942
	11,345,089	2,294,679	12,884,824	1,815,051	8,203	28,347,846	22,813,391
	\$ 16,202,342	\$ 518,501	\$ 24,806,592	\$ 10,066	\$ 5,000	\$ 41,542,501	\$ 34,817,758

ON BEHALF OF THE BENCHERS

.....

THE LAW SOCIETY OF MANITOBA
Statement of General Fund Operations and Changes in Equity
For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
REVENUE		
Annual fee		
Practicing	\$ 4,121,114	\$ 3,987,780
Non-Practicing	31,700	31,700
Administration fees	92,840	104,425
Costs recovered	64,036	60,459
Investment income (loss)	30,881	(52,855)
Other income	179,530	258,364
(Loss) gain on disposal of capital assets	(65,500)	1,734,000
	4,454,601	6,123,873
EXPENSES		
Building operation and maintenance	36,357	89,883
Catering	6,173	53,360
Custodial fees	59,685	69,715
Depreciation	13,299	8,786
Honoraria	28,650	13,150
Library grant	550,000	550,000
Office and sundry	48,478	63,872
Other grants and prizes	245,536	243,128
Other services	23,849	23,038
Professional development	8,170	15,871
Professional fees	165,097	146,687
Prosecution and investigation	25,165	15,596
Publications	14,018	13,706
Rent	462,050	482,411
Salaries and benefits	3,404,639	3,235,923
Service fees	6,901	27,741
Technology	46,398	33,646
Telecommunications	10,028	11,135
Travel	65,331	113,170
Recovery of administrative charges	(975,000)	(875,000)
	4,244,824	4,335,818
EXCESS OF REVENUE OVER EXPENSES	209,777	1,788,055
FUND EQUITY, BEGINNING OF YEAR	6,998,783	5,944,723
PENSION REMEASUREMENT	4,136,529	(733,995)
FUND EQUITY, END OF YEAR	\$ 11,345,089	\$ 6,998,783

THE LAW SOCIETY OF MANITOBA
Statement of Reimbursement Fund Operations
and Changes in Equity
For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
REVENUE		
Annual assessments	\$ 1,230,684	\$ 576,117
Grant from Manitoba Law Foundation	653,957	559,556
Investment income	61,541	653
Other Income	4,037	-
	1,950,219	1,136,326
EXPENSES		
Administrative expenses	300,000	200,000
Claims paid (recovered)	826,491	(8,578)
Insurance	448,912	131,860
Miscellaneous	-	151
Professional development	6,001	4,383
Professional fees	1,794	1,592
Office and sundry	1,179	1,173
Prosecution and investigation	192	-
Salaries and benefits	562,866	556,877
Technology	5,014	1,267
Travel	4,831	11,818
	2,157,280	900,543
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(207,061)	235,783
FUND EQUITY, BEGINNING OF YEAR	2,501,740	2,265,957
FUND EQUITY, END OF YEAR	\$ 2,294,679	\$ 2,501,740

THE LAW SOCIETY OF MANITOBA
Statement of Professional Liability Claims Fund Operations
and Changes in Equity
For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
REVENUE		
Insurance premiums paid by members	\$ 2,670,368	\$ 2,815,466
Investment income	3,267,093	336,075
	5,937,461	3,151,541
EXPENSES		
Administrative expenses	475,000	475,000
Claims paid (Note 9)	1,538,534	1,324,845
Counsel fees (Note 9)	803,434	492,004
Insurance	825,720	609,074
Office and sundry	3,460	3,684
Professional development	275	1,049
Professional fees	158,113	142,380
Salaries and benefits	605,555	562,423
Technology	2,474	5,721
Travel	-	3,722
	4,412,565	3,619,902
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE UNDERNOTED	1,524,896	(468,361)
(INCREASE) DECREASE IN RESERVE FOR OUTSTANDING PROFESSIONAL LIABILITY CLAIMS	(144,917)	918,323
EXCESS OF REVENUE OVER EXPENSES	1,379,979	449,962
FUND EQUITY, BEGINNING OF YEAR	11,504,845	11,054,883
FUND EQUITY, END OF YEAR	\$ 12,884,824	\$ 11,504,845

THE LAW SOCIETY OF MANITOBA
Statement of Education and Competence Fund
Operations and Changes in Equity
For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
REVENUE		
Legal education assessment	\$ 374,766	\$ 629,929
Articling application	13,700	13,200
Call fee	66,000	56,350
CPLED tuition	-	231,500
CPLED recovery	27,120	-
Legal education programs	383,554	337,614
Grant from Manitoba Law Foundation	653,957	559,556
Investment loss	(11,228)	(13,433)
Material sales	7,947	17,012
Other Income	10	2,199
	1,515,826	1,833,927
EXPENSES		
Administrative expenses	200,000	200,000
Call ceremony	2,602	11,355
Catering	215	27,111
Curriculum development	13,348	55,179
Honoraria	145	35,835
Miscellaneous	108	236
Office and sundry	7,462	10,177
PREP subsidy	279,500	-
Professional development	3,279	7,824
Professional fees	9,284	5,120
Publications	1,202	2,381
Rent	-	1,143
Salaries and benefits	966,685	1,036,137
Service fees	10,863	586
Technology	5,936	13,678
Telecommunications	39	683
Travel	-	58,552
	1,500,668	1,465,997
EXCESS OF REVENUE OVER EXPENSES	15,158	367,930
FUND EQUITY, BEGINNING OF YEAR	1,799,893	1,431,963
FUND EQUITY, END OF YEAR	\$ 1,815,051	\$ 1,799,893

THE LAW SOCIETY OF MANITOBA
Statement of Endowment and Trust Funds Operations
and Changes in Equity
For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
FRANK BILLINKOFF LOAN FUND		
FUND EQUITY, BEGINNING OF YEAR	\$ 2,188	\$ 2,188
FUND EQUITY, END OF YEAR	\$ 2,188	\$ 2,188
MARGARET HYPATIA CRAWFORD SCHOLARSHIP AND PRIZE FUND		
Investment income	\$ 73	\$ 82
EXCESS OF REVENUE OVER EXPENSES	73	82
FUND EQUITY, BEGINNING OF YEAR	5,942	5,860
FUND EQUITY, END OF YEAR	\$ 6,015	\$ 5,942

THE LAW SOCIETY OF MANITOBA

Statement of Cash Flows

For the year ended March 31, 2021

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses:		
General Fund	\$ 209,777	\$ 1,788,055
Reimbursement Fund	(207,061)	235,783
Professional Liability Claims Fund	1,379,979	449,962
General Education and Competence Fund	15,158	367,930
Endowment and Trust Funds	73	82
Items not affecting cash:		
Depreciation	13,299	8,786
Amortization of deferred rent incentive	(20,990)	(20,990)
Loss (gain) on the disposal of capital assets	65,500	(1,734,000)
Reserve for outstanding claims	144,917	(918,323)
Current year net investment income	(3,288,476)	(179,689)
Net change in non-cash working capital	1,402,435	(885,182)
	<u>(285,389)</u>	<u>(887,586)</u>
INVESTING ACTIVITIES		
Purchases of investments	-	(1,927,300)
Sales of investments	1,000,000	1,200,000
Proceeds on the sale of capital assets	-	1,920,000
Purchases of capital assets	-	(47,774)
	<u>1,000,000</u>	<u>1,144,926</u>
FINANCING ACTIVITY		
Leasehold improvement allowance received	-	9,638
INCREASE IN CASH AND TERM DEPOSITS		
	714,611	266,978
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	4,548,739	4,281,761
CASH AND TERM DEPOSITS, END OF YEAR	\$ 5,263,350	\$ 4,548,739

THE LAW SOCIETY OF MANITOBA

Notes to the Financial Statements

March 31, 2021

1. PURPOSE OF THE ORGANIZATION

The Law Society of Manitoba (the “Society”) is a not-for-profit organization incorporated by a special act of the Manitoba Legislature. Its purpose is to uphold and protect the public interest in the delivery of legal services with competence, integrity and independence.

2. NATURE OF FUND BALANCES

The Law Society of Manitoba follows the restricted fund method of accounting and has established separate special purpose funds for the administration of specific programs.

General Fund

The purpose of the General Fund is to account for the general operations of the Society, including all property and equipment owned by the Society. Subsection 2(2) of The Legal Profession Act provides that in pursuing its purpose and carrying out its duties, the Society has all the powers and capacity of a natural person.

Reimbursement Fund

The Reimbursement Fund is continued under subsection 46(1) of The Legal Profession Act. The purpose of the Reimbursement Fund is to compensate claimants who have sustained pecuniary losses because of a member’s or law corporation’s misappropriation or wrongful conversion of the claimant’s money or property.

Professional Liability Claims Fund

The Professional Liability Claims Fund is continued under subsection 45(2) of The Legal Profession Act. The purpose of the Claims Fund is to pay professional liability claims in accordance with the Act and the Law Society Rules.

Education and Competence Fund

The Education and Competence Fund was established for the purpose of regulating the admission of persons as students and their service under articles, providing instruction in law and regulating the call of persons to the Bar and the admission of solicitors. Subsection 3(2)(a) of The Legal Profession Act states that in pursuing its purpose, the Society must establish standards for the education, professional responsibility and competence of persons practicing or seeking the right to practice law in the province of Manitoba.

Endowment and Trust Funds

a) *Frank Billinkoff Loan Fund*

The Frank Billinkoff Loan Fund was established in 1957 by the late Frank Billinkoff as a revolving loan fund to be lent to deserving law students, without interest, to permit them to continue their studies in law.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

2. NATURE OF FUND BALANCES (continued)

Endowment and Trust Funds (continued)

b) *Margaret Hypatia Crawford Scholarship and Prize Fund*

The Crawford Scholarship is a scholarship to the student with the highest standing in the final year at the Faculty of Law, University of Manitoba, and also awards prizes to the students with the second, third and fourth highest standings in the final year.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies

a) *Revenue recognition*

Externally restricted contributions are deferred and recognized as revenue of the appropriate fund in the year which the related expenses are incurred.

Unrestricted contributions are recognized as revenue of the General Fund when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue of the appropriate fund when earned.

b) *Capital assets*

Capital assets are recorded at cost less accumulated depreciation, with the exception of the library and lockers, which are recorded at a nominal value and are not being depreciated. Depreciation on other assets is provided on a straight-line basis using the following rates:

Computer equipment and software	3 years
Furniture and equipment	5 years
Leasehold Improvements	Term of the lease

c) *Assets held for sale*

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets, which would otherwise be subject to depreciation, are no longer being depreciated.

d) *Foreign currency translation*

All investments maintained in foreign currencies have been translated into Canadian dollars at the exchange rate in effect at March 31, 2021. Income from investments maintained in foreign currencies is translated at the month end spot rate for the month in which it is earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) *Pension plan*

The cost of the Society's defined benefit pension plan is determined periodically by independent actuaries. The actuarial valuation is based on the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The Society recognizes:

- a) the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance on the balance sheet;
- b) the cost of the plan for the year; and
- c) remeasurements and other items directly in equity.

f) *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value when The Society becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments except investments are measured at amortized cost. Investments are measured at fair value.

Transaction costs related to financial instruments measured at fair value are expensed as incurred. Transaction costs related to the other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in the statement of operations.

With respect to financial assets measured at cost or amortized cost, the Society recognizes in the statement of operations of the respective fund, an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in the statement of operations of the respective fund in the period the reversal occurs.

g) *Deferred lease incentives*

Deferred rent incentives represent net inducements received that are deferred and amortized on a straight line basis as a reduction of rent expense over the term of the lease. The leasehold improvement allowance represent inducements received to cover the purchase of capital assets and is amortized on the same basis as the underlying assets acquired and is recorded as a reduction of the related depreciation expense.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of the valuation of investments, accrued pension benefit asset and obligation, and the reserve for outstanding professional liability claims and associated costs at the date of the financial statements, the useful life of the leasehold improvements and the amortization rates of the deferred lease incentives. Actual results could differ from these estimates.

4. INVESTMENTS

Investments consist of certain guaranteed investments, stocks, and bonds, and are recorded at fair value. Certain of these investments and related earnings have been aggregated in one pool and are allocated amongst the funds. The year-end allocations are as follows:

	<u>2021</u>		<u>2020</u>	
Reimbursement Fund	\$ 461,241	1.84%	\$ 399,985	1.76%
Professional Liability Claims Fund	24,542,686	98.14%	21,812,918	96.01%
Education and Competence Fund	-	0.00%	502,548	2.21%
Endowment and Trust Funds	5,000	0.02%	5,000	0.02%
	<u>\$25,008,927</u>	<u>100.00%</u>	<u>\$ 22,720,451</u>	<u>100.00%</u>

5. CAPITAL ASSETS

	<u>2021</u>			<u>2020</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment and software	\$ 409,321	\$ 382,133	\$ 27,188	\$ 142,120
Furniture and equipment	236,101	217,799	18,302	26,355
Library and lockers	2	-	2	2
Leasehold Improvements	658,853	178,986	479,867	545,303
	<u>\$ 1,304,277</u>	<u>\$ 778,918</u>	<u>\$ 525,359</u>	<u>\$ 713,780</u>

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

6. DEFERRED LEASE INCENTIVES

	2021			2020
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred rent incentive	\$ 209,919	\$ 55,978	\$ 153,941	\$ 174,933
Leasehold improvement allowance	872,213	298,985	573,228	682,848
	\$ 1,082,132	\$ 354,963	\$ 727,169	\$ 857,781

	2021	2020
Balance, beginning of year	\$ 857,781	\$ 978,579
Leasehold improvement allowance received	-	9,638
Incentive received - relocation and other costs	-	23,425
Amounts allocated to expenditures	(130,612)	(153,861)
	\$ 727,169	\$ 857,781

7. PROFESSIONAL LIABILITY CLAIMS FUND CONTINGENT LIABILITY

The Society records claims of the Professional Liability Claims Fund by accruing a reserve for outstanding claims and associated costs at March 31, 2021. Management has set aside the sum of \$7,337,778 (2020 - \$7,192,861) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$24,542,686 (2020 - \$21,812,918) are available to pay claims and expenses.

8. REIMBURSEMENT FUND CONTINGENT LIABILITY

Payment out of the fund is at the discretion of the governing body, the Reimbursement Fund Committee, or Society staff, within guidelines set by the governing body. Any claim payments which may occur will be accounted for in the year payment is approved.

9. CLAIMS PAID AND COUNSEL FEES

The claims paid and counsel fees reported in the Statement of Professional Liability Claims Fund are reported net of amounts recovered. The gross amounts are as follows:

	2021	2020
Claims paid		
Total expenses	\$ 1,902,675	\$ 1,440,269
Recoveries	(364,141)	(115,424)
	\$ 1,538,534	\$ 1,324,845

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

9. CLAIMS PAID AND COUNSEL FEES (continued)

	<u>2021</u>	<u>2020</u>
Counsel fees		
Total expenses	\$ 1,600,217	\$ 996,571
Recoveries	(796,783)	(504,567)
	<u>\$ 803,434</u>	<u>\$ 492,004</u>

10. PENSION PLAN

The Society has a defined benefit pension plan, which covers substantially all employees. Pension benefits are based on length of service and final average earnings, and are partially indexed for inflation after retirement.

The Society measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2020 and these financial statements reflect the extrapolation of information to March 31, 2021.

Information about the Society's defined benefit plans is as follows:

	<u>2021</u>	<u>2020</u>
Change in fair value of plan assets:		
Balance, beginning of year	\$ 25,519,195	\$ 25,158,722
Employer contributions	841,475	852,375
Employee contributions	277,990	282,212
Actual return on plan assets	5,215,778	(330,794)
Benefits paid	(463,952)	(443,320)
Fair value, end of year	<u>\$ 31,390,486</u>	<u>\$ 25,519,195</u>
Change in accrued benefit obligation:		
Balance, beginning of year	\$ 21,257,197	\$ 20,162,729
Current service cost	909,133	880,880
Interest cost on benefit obligation	1,062,860	1,008,136
Employee contributions	277,990	282,212
Benefits paid	(463,952)	(443,320)
Actuarial loss on accrued benefit obligation	(51,269)	(633,440)
Benefit obligation, end of year	<u>\$ 22,991,959</u>	<u>\$ 21,257,197</u>
Funded status:		
Market value of plan assets, end of year	\$ 31,390,486	\$ 25,519,195
Defined benefit obligation, end of year	(22,991,959)	(21,257,197)
Accrued benefit asset	<u>\$ 8,398,527</u>	<u>\$ 4,261,998</u>

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

10. PENSION PLAN (continued)

	(Percentage of plan assets)	
	2021	2020
Canadian equities	20%	18%
Foreign equities	43%	42%
Fixed income	31%	35%
Short term investments	6%	5%
Total	100%	100%

	2021	2020
Defined benefit costs:		
Current service cost	\$ 909,133	\$ 880,880
Finance costs	(213,100)	(249,800)
Costs arising in the period	\$ 696,033	\$ 631,080

The significant assumptions used are as follows (weighted average):

	2021	2020
At beginning of period		
Discount rate	5.00%	5.00%
Rate of compensation increase	4.50%	4.50%
Benefit costs for the year ended March 31		
Discount rate	5.00%	5.00%
Rate of compensation increase	4.50%	4.50%

11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK

Market risk

Market risk is the risk of loss that results from fluctuations in equity prices, interest and exchange rates. The Society is exposed to market risk from its investing activities. The level of risk to which the Society is exposed varies depending on market conditions and the composition of the asset mix.

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes in the Society's cash flows, financial position, and income. This risk arises from differences in the timing and amount of cash flows related to the Society's assets and liabilities. The value of the Society's assets is affected by short-term changes in nominal interest rates and equity markets.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK (continued)

Interest rate risk (continued)

In accordance with the asset mix strategy, the Society has invested approximately 60% (2020 – 60%) of its investment assets in fixed income securities and 40% (2020 – 40%) in equities as at March 31, 2021. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates. The effective interest rate earned by the Society on bonds and debentures for the current period ending March 31, 2021 was 5.60% (2020 – 4.00%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures, excluding any pooled fixed income funds, held by the Society at March 31, 2021 are as follows:

	2021	2020
	Market Value	Market Value
Less than one year	\$ -	\$ -
One to five years	568,564	563,298
Five to ten years	-	-
Greater than ten years	930,656	936,409
	\$ 1,499,220	\$ 1,499,707

Credit risk

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the Society. At March 31, 2021 the Society's maximum credit risk exposure is equal to the market value of investments in short-term deposits, bonds and debentures. The Society's concentration of credit risk as at March 31, 2021 related to bonds and debentures is categorized among the following types of issuers.

	2021	2020
	Market Value	Market Value
<u>Type of Issuer</u>		
Government of Canada and		
Government of Canada guaranteed	\$ 388,512	\$ 391,445
Provincial and Provincial guaranteed	389,292	402,989
Corporations	721,416	705,273
	\$ 1,499,220	\$ 1,499,707

The Society limits interest rate risk and credit risk by investing in bonds and debentures of investees that are considered to be high quality credits and by utilizing an internal Investment Policy Guideline monitoring process that requires the weighted average credit rating of bonds held in the portfolio to be rated A or better.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2021

11. MARKET, INTEREST RATE, CREDIT AND FOREIGN CURRENCY RISK (continued)

Foreign currency risk

Foreign currency exposure arises from the Society's holdings of investments denominated in foreign currencies. As at March 31, 2021 the Society's foreign currency exposure was \$7,461,289 (2020 - \$6,405,064). The Society does not use derivative instruments to reduce its exposure to foreign currency risk.

12. COMMITMENTS

The Society has commitments for leased premises to July 2028 comprised of base rents plus a proportionate share of operating costs and management fees. The minimum aggregate lease payments over the next five years are as follows:

2022	\$ 557,361
2023	570,501
2024	617,084
2025	647,755
2026	662,535

As a subscriber to the Canadian Lawyers Insurance Association's (CLIA) Compensation Fund program, the Society is required to maintain a surplus/reserve account within a certain designated level. Due to the significant number of large claims paid, this surplus/reserve account became deficient and CLIA issued a retrospective assessment of \$1,716,927, payable over 5 years, resulting in an annual amount of \$260,438 due through to 2024.

13. COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies and financial markets globally. At this time it is not possible for the Society to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Society's operations in future periods.