

Financial Statements of

THE LAW SOCIETY OF MANITOBA

March 31, 2019

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, 2019, 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, 2019, 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.



Chartered Professional Accountants

Winnipeg, Manitoba
June 27, 2019

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THE LAW SOCIETY OF MANITOBA
Statement of Financial Position
As at March 31, 2019

	2019					Total	2018 Total
	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Fund	Endowment and Trust Funds		
ASSETS							
Cash and term deposits	\$ 4,281,761	\$ -	\$ -	\$ -	\$ -	\$ 4,281,761	\$ 3,900,007
Funds held in trust	565,622	-	-	-	-	565,622	556,034
Accounts and accrued interest receivable	519,152	599	22,823	1,174	-	543,748	573,250
Due from The Manitoba Law Library Inc.	608,236	-	-	-	-	608,236	618,878
Prepaid expenses	88,861	42,683	143,124	5,082	-	279,750	423,914
Investments (Note 4)	1,177,948	399,854	19,579,272	651,388	5,000	21,813,462	20,504,016
Deferred charge - pension plan (Note 10)	4,995,993	-	-	-	-	4,995,993	4,387,784
Loans receivable	395,407	-	-	-	-	395,407	48,448
Assets held for sale (Note 5)	186,000	-	-	-	-	186,000	186,000
Capital assets (Note 5)	784,238	-	-	-	-	784,238	23,435
	\$ 13,603,218	\$ 443,136	\$ 19,745,219	\$ 657,644	\$ 5,000	\$ 34,454,217	\$ 31,221,766
LIABILITIES AND FUND EQUITY							
Accounts payable and accrued liabilities	\$ 473,467	\$ 147	\$ 7,246	\$ 243	\$ -	\$ 481,103	\$ 502,812
Funds held in trust	565,621	-	-	-	-	565,621	556,034
Fees and assessments paid in advance	2,260,717	309,650	695,172	346,617	-	3,612,156	3,725,239
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	8,111,184	-	-	8,111,184	7,335,147
Deferred lease incentives (Note 6)	978,579	-	-	-	-	978,579	202,980
Due to (from) other funds	3,380,111	(2,132,618)	(123,266)	(1,121,179)	(3,048)	-	-
	7,658,495	(1,822,821)	8,690,336	(774,319)	(3,048)	13,748,643	12,322,212
COMMITMENTS (NOTE 11)							
FUND EQUITY							
General Fund	5,944,723	-	-	-	-	5,944,723	4,930,000
Reimbursement Fund (Note 8)	-	2,265,957	-	-	-	2,265,957	2,243,824
Professional Liability Claims Fund (Note 7)	-	-	11,054,883	-	-	11,054,883	10,672,994
Education and Competence Fund	-	-	-	1,431,963	-	1,431,963	1,044,733
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,860	5,860	5,815
	5,944,723	2,265,957	11,054,883	1,431,963	8,048	20,705,574	18,899,554
	\$ 13,603,218	\$ 443,136	\$ 19,745,219	\$ 657,644	\$ 5,000	\$ 34,454,217	\$ 31,221,766

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, 2019

	<u>2019</u>	<u>2018</u>
REVENUE		
Annual fee		
Practicing	\$ 3,973,433	\$ 3,521,841
Non-Practicing	30,950	28,700
Capital improvement levy	219,300	218,500
Administration fees	111,160	108,704
Costs recovered	74,556	86,996
Investment income	132,468	115,691
Other income	213,723	248,837
	4,755,590	4,329,269
EXPENSES		
Building operation and maintenance	150,047	127,559
Catering	44,017	75,246
Custodial fees	56,775	55,910
Depreciation	2,904	3,672
Honoraria	14,250	21,850
Library grant	550,000	600,000
Office and sundry	75,302	57,348
Other grants and prizes	247,439	234,195
Other services	19,371	24,562
Professional development	19,899	11,517
Professional fees	118,934	125,686
Prosecution and investigation	24,202	23,333
Publications	12,659	13,229
Rent	538,622	94,175
Salaries and benefits	3,015,463	2,849,434
Service fees	35,154	34,579
Technology	23,246	17,386
Telecommunications	13,098	13,991
Travel	112,694	125,844
Recovery of administrative charges	(725,000)	(625,000)
	4,349,076	3,884,516
EXCESS OF REVENUE OVER EXPENSES	406,514	444,753
FUND EQUITY, BEGINNING OF YEAR	4,930,000	3,781,938
PENSION REMEASUREMENT	608,209	703,309
FUND EQUITY, END OF YEAR	\$ 5,944,723	\$ 4,930,000

THE LAW SOCIETY OF MANITOBA
Statement of Reimbursement Fund Operations
and Changes in Equity
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</u>
REVENUE		
Annual assessments	\$ 611,733	\$ 1,035,424
Grant from Manitoba Law Foundation	267,912	167,883
Investment income	24,347	20,489
	903,992	1,223,796
EXPENSES		
Administrative expenses	125,000	125,000
Claims paid (recovered)	30,861	(88,777)
Insurance	155,150	160,009
Professional development	5,700	5,490
Professional fees	1,585	1,470
Office and sundry	1,268	3,301
Prosecution and investigation	2,173	2,058
Rent	25,366	49,703
Salaries and benefits	522,251	490,766
Technology	428	1,969
Telecommunications	828	2,651
Travel	10,086	9,868
Trust safety	1,163	-
	881,859	763,508
EXCESS OF REVENUE OVER EXPENSES	22,133	460,288
FUND EQUITY, BEGINNING OF YEAR	2,243,824	1,783,536
FUND EQUITY, END OF YEAR	\$ 2,265,957	\$ 2,243,824

THE LAW SOCIETY OF MANITOBA
Statement of Professional Liability Claims Fund Operations
and Changes in Equity
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</u>
REVENUE		
Insurance premiums paid by members	\$ 2,744,530	\$ 2,676,145
Investment income	1,192,160	1,003,251
	3,936,690	3,679,396
EXPENSES		
Administrative expenses	475,000	475,000
Claims paid (Note 9)	364,023	1,544,190
Counsel fees (Note 9)	624,021	374,563
Insurance	610,999	693,902
Library grant	-	10,000
Office and sundry	3,580	4,808
Professional development	265	894
Professional fees	137,326	130,746
Salaries and benefits	557,098	532,066
Technology	1,595	2,126
Travel	4,857	7,573
	2,778,764	3,775,868
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE UNDERNOTED	1,157,926	(96,472)
INCREASE IN RESERVE FOR OUTSTANDING PROFESSIONAL LIABILITY CLAIMS	776,037	453,147
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	381,889	(549,619)
FUND EQUITY, BEGINNING OF YEAR	10,672,994	11,222,613
FUND EQUITY, END OF YEAR	\$ 11,054,883	\$ 10,672,994

THE LAW SOCIETY OF MANITOBA
Statement of Education and Competence Fund
Operations and Changes in Equity
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</u>
REVENUE		
Legal education assessment	\$ 729,459	\$ 725,311
Student admission fees	11,600	13,200
Call fee	58,650	62,675
CPLED fees	253,577	247,300
Legal education programs	365,662	405,924
Grant from Manitoba Law Foundation	267,912	167,883
Investment income	39,662	33,377
Material sales	14,761	23,250
Other Income	1,080	3,150
	1,742,363	1,682,070
EXPENSES		
Administrative expenses	125,000	25,000
Call ceremony	11,408	10,028
Catering	35,708	44,582
Curriculum development	55,890	43,834
Honoraria	45,591	57,260
Miscellaneous	113	403
Office and sundry	12,097	28,542
Professional development	6,224	6,545
Professional fees	15,487	20,109
Publications	12,870	32,169
Rent	3,034	4,526
Salaries and benefits	995,146	947,025
Service fees	400	349
Technology	8,615	10,750
Telecommunications	1,192	1,376
Travel	26,358	41,660
	1,355,133	1,274,158
EXCESS OF REVENUE OVER EXPENSES	387,230	407,912
FUND EQUITY, BEGINNING OF YEAR	1,044,733	636,821
FUND EQUITY, END OF YEAR	\$ 1,431,963	\$ 1,044,733

THE LAW SOCIETY OF MANITOBA
Statement of Endowment and Trust Funds Operations
and Changes in Equity
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</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	\$ 45	\$ 40
EXCESS OF REVENUE OVER EXPENSES	45	40
FUND EQUITY, BEGINNING OF YEAR	5,815	5,775
FUND EQUITY, END OF YEAR	\$ 5,860	\$ 5,815

THE LAW SOCIETY OF MANITOBA
Statement of Cash Flows
For the year ended March 31, 2019

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses:		
General Fund	\$ 406,514	444,753
Reimbursement Fund	22,133	460,288
Professional Liability Claims Fund	381,889	(549,619)
General Education and Competence Fund	387,230	407,912
Endowment and Trust Funds	45	40
Items not affecting cash:		
Depreciation	2,904	3,672
Amortization of deferred lease incentives	(13,995)	-
Rent expense recorded related to free rent period	115,851	94,067
Reserve for outstanding claims	776,037	453,147
Current year net investment income	(1,309,446)	(1,095,151)
Net change in non-cash working capital	(297,444)	40,131
	<u>471,718</u>	<u>259,240</u>
INVESTING ACTIVITY		
Purchases of capital assets	(843,628)	(18,572)
FINANCING ACTIVITY		
Deferred rent incentives	753,664	108,913
INCREASE IN CASH AND TERM DEPOSITS	381,754	349,581
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	3,900,007	3,550,426
CASH AND TERM DEPOSITS, END OF YEAR	\$ 4,281,761	\$ 3,900,007

THE LAW SOCIETY OF MANITOBA

Notes to the Financial Statements

March 31, 2019

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, 2019

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:

Building	20 years
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, 2019. 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, 2019

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 accrued pension benefit asset and obligation, and the reserve for outstanding professional liability claims and associated costs at the date of the financial statements. 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:

	2019		2018	
General Fund	\$ 1,177,948	5.40%	\$ 1,107,221	5.40%
Reimbursement Fund	399,854	1.83%	375,845	1.83%
Professional Liability Claims Fund	19,579,272	89.76%	18,403,674	89.76%
Education and Competence Fund	651,388	2.99%	612,276	2.99%
Endowment and Trust Funds	5,000	0.02%	5,000	0.02%
	\$21,813,462	100.00%	\$20,504,016	100.00%

5. CAPITAL ASSETS AND ASSETS HELD FOR SALE

	2019			2018
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer equipment and software	\$ 436,686	\$ (288,568)	\$ 148,118	\$ 1,534
Furniture and equipment	236,101	(200,911)	35,190	3,329
Library and lockers	2	-	2	2
Leasehold improvements	649,217	(48,289)	600,928	18,570
	\$ 1,322,006	\$ (537,768)	\$ 784,238	\$ 23,435

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2019

5. CAPITAL ASSETS AND ASSETS HELD FOR SALE

Certain assets are held for sale based on the Society's decision to sell the land and building and lease a new location for the Society's operations.

	2019			2018
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 186,000	\$ -	\$ 186,000	\$ 186,000
Building	917,135	(917,135)	-	-
	\$ 1,103,135	\$ (917,135)	\$ 186,000	\$ 186,000

The Society has put the land and building up for sale and has received a conditional offer to purchase, the conditions for which have not yet been satisfied. The purchase price contained in the offer to purchase is in excess of the carrying amount of the land and building.

6. DEFERRED LEASE INCENTIVES

	2019			2018
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred rent incentive	\$ 209,918	\$ (13,995)	\$ 195,923	\$ 94,067
Leasehold improvement allowance	862,576	(79,920)	782,656	108,913
	\$ 1,072,494	\$ (93,915)	\$ 978,579	\$ 202,980

	2019	2018
Balance, beginning of year	\$ 202,980	\$ -
Deferred rent incentive received	115,851	94,067
Leasehold improvement allowance received	753,663	108,913
Incentive received – relocation and other costs	75,534	-
Amounts allocated to expenditures	(169,449)	-
Balance, end of year	\$ 978,579	\$ 202,980

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, 2019. Management has set aside the sum of \$8,111,184 (2018 - \$7,335,147) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$19,579,272 (2018 - \$18,403,674) are available to pay claims and expenses.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2019

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:

	<u>2019</u>	<u>2018</u>
Claims paid		
Total expenses	\$ 474,869	\$ 2,638,023
Recoveries	(110,846)	(1,093,833)
	<u>\$ 364,023</u>	<u>\$ 1,544,190</u>
Counsel fees		
Total expenses	\$ 632,490	\$ 564,869
Recoveries	(8,469)	(190,306)
	<u>\$ 624,021</u>	<u>\$ 374,563</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, 2018 and these financial statements reflect the extrapolation of information to March 31, 2019.

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

	<u>2019</u>	<u>2018</u>
Change in fair value of plan assets:		
Balance at beginning of year	\$ 23,027,126	\$ 20,739,520
Employer contributions	844,341	833,180
Employee contributions	277,716	262,496
Actual return on plan assets	1,554,601	1,573,903
Benefits paid	(545,062)	(381,973)
Fair value, end of year	<u>\$ 25,158,722</u>	<u>\$ 23,027,126</u>

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2019

10. PENSION PLAN (continued)

	<u>2019</u>	<u>2018</u>
Change in accrued benefit obligation:		
Balance at beginning of year	\$ 18,639,342	\$ 17,055,045
Current service cost	861,171	832,340
Interest cost on benefit obligation	931,967	852,752
Employee contributions	277,716	262,496
Benefits paid	(545,062)	(381,973)
Actuarial loss on accrued benefit obligation	(2,405)	18,682
Benefit obligation, end of year	\$ 20,162,729	\$ 18,639,342

Funded status:		
Market value of plan assets, end of year	\$ 25,158,722	\$ 23,027,126
Defined benefit obligation, end of year	20,162,729	18,639,342
Accrued benefit asset	\$ 4,995,993	\$ 4,387,784

	(Percentage of plan assets)	
	<u>2019</u>	<u>2018</u>
Canadian equities	19%	18%
Foreign equities	43%	43%
Fixed income	31%	33%
Short term investments	7%	6%
Total	100%	100%

	<u>2019</u>	<u>2018</u>
Defined benefit costs:		
Current service cost	\$ 861,171	\$ 832,340
Finance costs	(219,389)	(184,224)
Costs arising in the period	\$ 641,782	\$ 648,116

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

	<u>2019</u>	<u>2018</u>
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%

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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.

In accordance with the asset mix strategy updated in 2013, the Society has invested approximately 60% (2018 – 60%) of its investment assets in fixed income securities and 40% (2018 – 40%) in equities as at March 31, 2019. 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, 2019 was 2.78% (2018 – 2.68%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2019 are as follows:

	2019		2018
	Market		Market
	Value		Value
Less than one year	\$ -	\$	-
One to five years	560,787		705,130
Five to ten years	-		1,187,346
Greater than ten years	936,443		1,371,758
	\$ 1,497,230	\$	3,264,234

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

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, 2019 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, 2019 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	2019 Market Value	2018 Market Value
Government of Canada and Government of Canada guaranteed	\$ 382,949	\$ 1,133,846
Provincial and Provincial guaranteed Corporations	393,158 721,123	864,518 1,265,870
	\$ 1,497,230	\$ 3,264,234

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.

Foreign currency risk

Foreign currency exposure arises from the Society's holdings of investments denominated in foreign currencies. As at March 31, 2019 the Society's foreign currency exposure was \$6,301,820 (2018 - \$5,845,251). 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:

2020	\$ 599,968
2021	612,116
2022	624,751
2023	637,890
2024	684,473

The Society also has a commitment to the Federation of Law Societies of Canada until February 2021 in the amount of \$14,131 annually to finance the purchase by the Canadian Legal Information Institute of Lexum and an agreement to fund \$267,172 to the Canadian Centre for Professional Legal Education during the 2020 year.

13. COMPARATIVE FIGURES

Certain comparative balances have been reclassified to conform with current year presentation standards.