

Financial Statements of

THE LAW SOCIETY OF MANITOBA

March 31, 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of The Law Society of Manitoba

We have audited the accompanying financial statements of The Law Society of Manitoba, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and changes in equity of the General Fund, Reimbursement Fund, Professional Liability Claims Fund, Education and Competence Program Fund, and Endowment and Trust Funds and cash flows for the year then ended and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

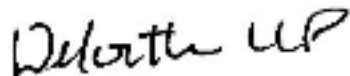
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of The Law Society of Manitoba as at March 31, 2018, 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.



Chartered Professional Accountants

June 28, 2018
Winnipeg, Manitoba

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THE LAW SOCIETY OF MANITOBA
Statement of Financial Position
As at March 31, 2018

	2018						2017 Total
	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Program Fund	Endowment and Trust Funds	Total	
ASSETS							
Cash and term deposits	\$ 3,900,007	\$ -	\$ -	\$ -	\$ -	\$ 3,900,007	\$ 3,550,426
Funds held in trust	556,034	-	-	-	-	556,034	545,919
Accounts and accrued interest receivable	541,743	611	29,901	995	-	573,250	378,682
Due from The Manitoba Law Library Inc.	618,878	-	-	-	-	618,878	723,205
Prepaid expenses	201,507	48,817	165,252	8,338	-	423,914	246,311
Investments (Note 4)	1,107,221	375,845	18,403,674	612,276	5,000	20,504,016	19,408,865
Deferred charge - pension plan (Note 9)	4,387,784	-	-	-	-	4,387,784	3,684,475
Loans receivable	48,448	-	-	-	-	48,448	-
Assets held for sale (Note 5)	186,000	-	-	-	-	186,000	-
Capital assets (Note 5)	23,435	-	-	-	-	23,435	194,535
	\$ 11,571,057	\$ 425,273	\$ 18,598,827	\$ 621,609	\$ 5,000	\$ 31,221,766	\$ 28,732,418
LIABILITIES AND FUND EQUITY							
Accounts payable and accrued liabilities	\$ 695,073	\$ 111	\$ 10,426	\$ 182	\$ -	\$ 705,792	\$ 481,550
Funds held in trust	556,034	-	-	-	-	556,034	545,919
Fees and assessments paid in advance	2,299,818	327,000	682,675	415,746	-	3,725,239	3,390,078
Reserve for outstanding professional liability claims and associated costs (Note 6)	-	-	7,335,147	-	-	7,335,147	6,882,000
Due to (from) other funds	3,090,132	(2,145,662)	(102,415)	(839,052)	(3,003)	-	-
	6,641,057	(1,818,551)	7,925,833	(423,124)	(3,003)	12,322,212	11,299,547
COMMITMENTS (NOTE 11)							
FUND EQUITY							
General Fund	4,930,000	-	-	-	-	4,930,000	3,781,938
Reimbursement Fund (Note 7)	-	2,243,824	-	-	-	2,243,824	1,783,536
Professional Liability Claims Fund (Note 6)	-	-	10,672,994	-	-	10,672,994	11,222,613
Education and Competence Program Fund	-	-	-	1,044,733	-	1,044,733	636,821
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,815	5,815	5,775
	4,930,000	2,243,824	10,672,994	1,044,733	8,003	18,899,554	17,432,871
	\$ 11,571,057	\$ 425,273	\$ 18,598,827	\$ 621,609	\$ 5,000	\$ 31,221,766	\$ 28,732,418

ON BEHALF OF THE BENCHERS

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THE LAW SOCIETY OF MANITOBA
Statement of General Fund Operations and Changes in Equity
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Annual fee		
Practicing	\$ 3,521,841	\$ 3,464,529
Non-Practicing	28,700	28,300
Capital improvement levy	218,500	214,700
Administration fees	108,704	107,307
Costs recovered	86,996	40,750
Investment income	115,691	105,556
Other income	248,837	234,542
	4,329,269	4,195,684
EXPENSES		
Building operation and maintenance	127,559	116,625
Catering	75,246	46,787
Custodial fees	55,910	58,696
Depreciation	3,672	3,672
Honoraria	21,850	24,850
Library grant	600,000	650,000
Miscellaneous	-	2,305
Office and sundry	57,348	53,546
Other grants and prizes	234,195	230,149
Other services	24,562	18,418
Professional development	11,517	16,146
Professional fees	125,686	148,887
Prosecution and investigation	23,333	27,559
Publications	13,229	9,547
Rent	94,175	-
Salaries and benefits	2,849,434	2,666,130
Service fees	34,579	23,386
Technology	17,386	13,646
Telecommunications	13,991	14,274
Travel	125,844	132,745
Recovery of administrative charges	(625,000)	(625,000)
	3,884,516	3,632,368
EXCESS OF REVENUE OVER EXPENSES	444,753	563,316
FUND EQUITY, BEGINNING OF YEAR	3,781,938	3,013,147
PENSION REMEASUREMENT	703,309	205,475
FUND EQUITY, END OF YEAR	\$ 4,930,000	\$ 3,781,938

THE LAW SOCIETY OF MANITOBA
Statement of Reimbursement Fund Operations
and Changes in Equity
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Annual assessments	\$ 1,035,424	\$ 1,018,930
CLIA surplus rebate	-	39,975
Grant from Manitoba Law Foundation	167,883	167,692
Investment income	20,489	21,709
	1,223,796	1,248,306
EXPENSES		
Administrative expenses	125,000	125,000
Claims (recovered) paid	(88,777)	24,456
Insurance	160,009	160,300
Professional development	5,490	4,688
Professional fees	1,470	1,375
Office and sundry	3,301	2,602
Prosecution and investigation	2,058	18,141
Rent	49,703	50,052
Salaries and benefits	490,766	427,223
Technology	1,969	1,159
Telecommunications	2,651	2,431
Travel	9,868	6,189
	763,508	823,616
EXCESS OF REVENUE OVER EXPENSES	460,288	424,690
FUND EQUITY, BEGINNING OF YEAR	1,783,536	1,358,846
FUND EQUITY, END OF YEAR	\$ 2,243,824	\$ 1,783,536

THE LAW SOCIETY OF MANITOBA
Statement of Professional Liability Claims Fund Operations
and Changes in Equity
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Insurance premiums paid by members	\$ 2,676,145	\$ 2,441,286
Investment income	1,003,251	1,070,207
	3,679,396	3,511,493
EXPENSES		
Administrative expenses	475,000	475,000
Claims paid (Note 8)	1,544,190	943,354
Counsel fees (Note 8)	374,563	474,976
Insurance	693,902	737,868
Library grant	10,000	24,000
Miscellaneous	345	97
Office and sundry	4,463	4,477
Professional development	894	913
Professional fees	130,746	151,098
Salaries and benefits	532,066	517,650
Technology	2,126	1,569
Travel	7,573	7,218
	3,775,868	3,338,220
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES BEFORE UNDERNOTED	(96,472)	173,273
INCREASE IN RESERVE FOR OUTSTANDING PROFESSIONAL LIABILITY CLAIMS	453,147	-
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(549,619)	173,273
FUND EQUITY, BEGINNING OF YEAR	11,222,613	11,049,340
FUND EQUITY, END OF YEAR	\$ 10,672,994	\$ 11,222,613

THE LAW SOCIETY OF MANITOBA
Statement of Education and Competence Program Fund
Operations and Changes in Equity
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
REVENUE		
Legal education assessment	\$ 725,311	\$ 611,388
Student admission fees	13,200	13,050
Call fee	62,675	59,800
Legal education programs	405,924	385,609
CPLED fees	247,300	266,307
Grant from Manitoba Law Foundation	167,883	167,692
Investment income	33,377	35,366
Material sales	23,250	27,016
Other Income	3,150	869
	1,682,070	1,567,097
EXPENSES		
Administrative expenses	25,000	25,000
Call ceremony	10,028	11,403
Catering	44,582	40,230
Curriculum development	43,834	51,350
Honoraria	57,260	70,703
Miscellaneous expense	403	346
Office and sundry	28,542	35,563
Professional development	6,545	5,482
Professional fees	20,109	17,614
Publications	32,169	20,465
Rent	4,526	3,645
Salaries and benefits	947,025	1,099,064
Service fees	349	250
Technology	10,750	8,085
Telecommunications	1,376	3,202
Travel	41,660	59,425
	1,274,158	1,451,827
EXCESS OF REVENUE OVER EXPENSES	407,912	115,270
FUND EQUITY, BEGINNING OF YEAR	636,821	521,551
FUND EQUITY, END OF YEAR	\$ 1,044,733	\$ 636,821

THE LAW SOCIETY OF MANITOBA
Statement of Endowment and Trust Funds Operations
and Changes in Equity
For the year ended March 31, 2018

	<u>2018</u>	<u>2017</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	\$ 40	\$ 45
EXCESS OF REVENUE OVER EXPENSES	40	45
FUND EQUITY, BEGINNING OF YEAR	5,775	5,730
FUND EQUITY, END OF YEAR	\$ 5,815	\$ 5,775

THE LAW SOCIETY OF MANITOBA

Statement of Cash Flows

For the year ended March 31, 2018

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses:		
General Fund	\$ 444,753	563,316
Reimbursement Fund	460,288	424,690
Professional Liability Claims Fund	(549,619)	173,273
General Education and Competence Program Fund	407,912	115,270
Endowment and Trust Funds	40	45
Items not affecting cash:		
Depreciation	3,672	3,672
Reserve for outstanding claims	453,147	-
Current year net investment income	(1,095,151)	(1,179,746)
Net change in non-cash working capital	243,111	561,733
	<u>368,153</u>	<u>662,253</u>
INVESTING ACTIVITY		
Purchases of capital assets	(18,572)	-
	<u>(18,572)</u>	<u>-</u>
INCREASE IN CASH AND TERM DEPOSITS	349,581	662,253
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	3,550,426	2,888,173
CASH AND TERM DEPOSITS, END OF YEAR	\$ 3,900,007	\$ 3,550,426

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

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 Program Fund

The Education and Competence Program 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, 2018

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 amortization are no longer being amortized

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, 2018. 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) *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.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

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:

	2018		2017	
General Fund	\$ 1,107,221	5.40%	\$ 1,048,068	5.40%
Reimbursement Fund	375,845	1.83%	355,766	1.83%
Professional Liability Claims Fund	18,403,674	89.76%	17,420,465	89.75%
Education and Competence Program Fund	612,276	2.99%	579,566	2.99%
Endowment and Trust Funds	5,000	0.02%	5,000	0.03%
	\$20,504,016	100.00%	\$19,408,865	100.00%

5. CAPITAL ASSETS AND ASSETS HELD FOR SALE

	2018			2017
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ -	\$ -	\$ -	\$ 186,000
Computer equipment and software	261,029	(259,495)	1,534	3,835
Furniture and equipment	198,777	(195,448)	3,329	4,698
Library and lockers	2	-	2	2
Leasehold improvements	18,570	-	18,570	-
	\$ 478,378	\$ (454,943)	\$ 23,435	\$ 194,535

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.

	2018			2017
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 186,000	\$ -	\$ 186,000	\$ -
Building	917,135	(917,135)	-	-
	\$ 1,103,135	\$ (917,135)	\$ 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.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

6. 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, 2018. Management has set aside the sum of \$7,335,147 (2017 - \$6,882,000) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$18,403,674 (2017 - \$17,420,465) are available to pay claims and expenses.

7. 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.

8. 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>2018</u>	<u>2017</u>
Claims paid		
Total expenses	\$ 2,638,023	\$ 1,759,340
Recoveries	(1,093,833)	(815,986)
	<u>\$ 1,544,190</u>	<u>\$ 943,354</u>
Counsel fees		
Total expenses	\$ 564,869	\$ 530,205
Recoveries	(190,306)	(55,229)
	<u>\$ 374,563</u>	<u>\$ 474,976</u>

9. 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, 2015 and these financial statements reflect the extrapolation of information to March 31, 2018. The next required valuation will be as of December 31, 2018.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

9. PENSION PLAN (continued)

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

	<u>2018</u>	<u>2017</u>
Change in fair value of plan assets:		
Balance at beginning of year	\$ 20,739,520	\$ 18,380,505
Employer contributions	833,180	862,550
Employee contributions	262,496	256,887
Actual return on plan assets	1,573,903	1,533,742
Benefits paid	(381,973)	(294,164)
Fair value, end of year	\$ 23,027,126	\$ 20,739,520

	<u>2018</u>	<u>2017</u>
Change in accrued benefit obligation:		
Balance at beginning of year	\$ 17,055,045	\$ 14,901,505
Current service cost	832,340	657,660
Interest cost on benefit obligation	852,752	782,329
Employee contributions	262,496	256,887
Benefits paid	(381,973)	(294,164)
Actuarial loss on accrued benefit obligation	18,682	750,828
Benefit obligation, end of year	\$ 18,639,342	\$ 17,055,045

Funded status:		
Market value of plan assets, end of year	\$ 23,027,126	\$ 20,739,520
Defined benefit obligation, end of year	18,639,342	17,055,045
Accrued benefit asset	\$ 4,387,784	\$ 3,684,475

	(Percentage of plan assets)	
	<u>2018</u>	<u>2017</u>
Canadian equities	18%	17%
Foreign equities	43%	44%
Fixed income	33%	34%
Short term investments	6%	5%
Total	100%	100%

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

9. PENSION PLAN (continued)

	<u>2018</u>	<u>2017</u>
Defined benefit costs:		
Current service cost	\$ 832,340	\$ 657,660
Finance costs	(184,224)	(182,647)
Costs arising in the period	\$ 648,116	\$ 475,013

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

	<u>2018</u>	<u>2017</u>
At beginning of period		
Discount rate	5.00%	5.25%
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%

10. 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% (2017 – 60%) of its investment assets in fixed income securities and 40% (2017 – 40%) in equities as at March 31, 2018. 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, 2018 was 2.68% (2017 – 3.23%).

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2018

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

Interest rate risk (continued)

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2018 are as follows:

	2018		2017
	Market		Market
	Value		Value
Less than one year	\$ -	\$	-
One to five years	705,130		727,844
Five to ten years	1,187,346		1,225,505
Greater than ten years	1,371,758		1,361,202
	\$ 3,264,234	\$	3,314,551

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, 2018 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, 2018 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	2018		2017
	Market		Market
	Value		Value
Government of Canada and Government of Canada guaranteed	\$ 1,133,846	\$	1,163,718
Provincial and Provincial guaranteed Corporations	864,518		872,735
	1,265,870		1,278,098
	\$ 3,264,234	\$	3,314,551

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, 2018 the Society's foreign currency exposure was \$5,845,251 (2017 - \$6,023,524). The Society does not use derivative instruments to reduce its exposure to foreign currency risk.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
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11. 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:

2019	\$ 465,438
2020	599,968
2021	612,116
2022	624,751
2023	637,890

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.