



The Law Society of Manitoba

INCORPORATED 1877 | INCORPORÉ EN 1877

Financial Statements March 31, 2020



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, 2020, 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, 2020, 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

Winnipeg, Manitoba
June 25, 2020

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THE LAW SOCIETY OF MANITOBA
Statement of Financial Position
As at March 31, 2020

	2020						2019 Total
	General Fund	Reimbursement Fund	Professional Liability Claims Fund	Education and Competence Fund	Endowment and Trust Funds	Total	
ASSETS							
Cash and term deposits	\$ 4,548,739	\$ -	\$ -	\$ -	\$ -	\$ 4,548,739	\$ 4,281,761
Funds held in trust	491,722	-	-	-	-	491,722	565,622
Accounts and accrued interest receivable	623,019	475	25,882	596	-	649,972	543,748
Due from The Manitoba Law Library Inc.	502,605	-	-	-	-	502,605	608,236
Prepaid expenses	61,586	35,646	149,753	4,797	-	251,782	279,750
Investments (Note 4)	-	399,985	21,812,918	502,548	5,000	22,720,451	21,813,462
Deferred charge - pension plan (Note 10)	4,261,998	-	-	-	-	4,261,998	4,995,993
Loans receivable	676,709	-	-	-	-	676,709	395,407
Assets held for sale (Note 5)	-	-	-	-	-	-	186,000
Capital assets (Note 5)	713,780	-	-	-	-	713,780	784,238
	\$ 11,880,158	\$ 436,106	\$ 21,988,553	\$ 507,941	\$ 5,000	\$ 34,817,758	\$ 34,454,217
LIABILITIES AND FUND EQUITY							
Accounts payable and accrued liabilities	\$ 594,015	\$ 4,380	\$ 11,306	\$ 8,394	\$ -	\$ 618,095	\$ 481,103
Funds held in trust	491,722	-	-	-	-	491,722	565,621
Fees and assessments paid in advance	1,531,464	434,988	725,513	151,943	-	2,843,908	3,612,156
Reserve for outstanding professional liability claims and associated costs (Note 7)	-	-	7,192,861	-	-	7,192,861	8,111,184
Deferred lease incentives (Note 6)	857,781	-	-	-	-	857,781	978,579
Due to (from) other funds	1,406,393	(2,505,002)	2,554,028	(1,452,289)	(3,130)	-	-
	4,881,375	(2,065,634)	10,483,708	(1,291,952)	(3,130)	12,004,367	13,748,643
COMMITMENTS (NOTE 12)							
FUND EQUITY							
General Fund	6,998,783	-	-	-	-	6,998,783	5,944,723
Reimbursement Fund (Note 8)	-	2,501,740	-	-	-	2,501,740	2,265,957
Professional Liability Claims Fund (Note 7)	-	-	11,504,845	-	-	11,504,845	11,054,883
Education and Competence Fund	-	-	-	1,799,893	-	1,799,893	1,431,963
Endowment and Trust Funds							
Billinkoff Loan Fund	-	-	-	-	2,188	2,188	2,188
Crawford Scholarship and Prize Fund	-	-	-	-	5,942	5,942	5,860
	6,998,783	2,501,740	11,504,845	1,799,893	8,130	22,813,391	20,705,574
	\$ 11,880,158	\$ 436,106	\$ 21,988,553	\$ 507,941	\$ 5,000	\$ 34,817,758	\$ 34,454,217

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, 2020

	2020	2019
REVENUE		
Annual fee		
Practicing	\$ 3,987,780	\$ 3,973,433
Non-Practicing	31,700	30,950
Capital improvement levy	-	219,300
Administration fees	104,425	111,160
Costs recovered	60,459	74,556
Investment (loss) income	(52,855)	132,468
Other income	258,364	213,723
Gain on sale of capital assets (Note 5)	1,734,000	-
	6,123,873	4,755,590
EXPENSES		
Building operation and maintenance	89,883	150,047
Catering	53,360	44,017
Custodial fees	69,715	56,775
Depreciation	8,786	2,904
Honoraria	13,150	14,250
Library grant	550,000	550,000
Office and sundry	63,872	75,302
Other grants and prizes	243,128	247,439
Other services	23,038	19,371
Professional development	15,871	19,899
Professional fees	146,687	118,934
Prosecution and investigation	15,596	24,202
Publications	13,706	12,659
Rent	482,411	538,622
Salaries and benefits	3,235,923	3,015,463
Service fees	27,741	35,154
Technology	33,646	23,246
Telecommunications	11,135	13,098
Travel	113,170	112,694
Recovery of administrative charges	(875,000)	(725,000)
	4,335,818	4,349,076
EXCESS OF REVENUE OVER EXPENSES	1,788,055	406,514
FUND EQUITY, BEGINNING OF YEAR	5,944,723	4,930,000
PENSION REMEASUREMENT	(733,995)	608,209
FUND EQUITY, END OF YEAR	\$ 6,998,783	\$ 5,944,723

THE LAW SOCIETY OF MANITOBA
Statement of Reimbursement Fund Operations
and Changes in Equity
For the year ended March 31, 2020

	2020	2019
REVENUE		
Annual assessments	\$ 576,117	\$ 611,733
Grant from Manitoba Law Foundation	559,556	267,912
Investment income	653	24,347
	1,136,326	903,992
EXPENSES		
Administrative expenses	200,000	125,000
Claims (recovered) paid	(8,578)	30,861
Insurance	131,860	155,150
Miscellaneous	151	-
Professional development	4,383	5,700
Professional fees	1,592	1,585
Office and sundry	1,173	1,268
Prosecution and investigation	-	2,173
Rent	-	25,366
Salaries and benefits	556,877	522,251
Technology	1,267	428
Telecommunications	-	828
Travel	11,818	10,086
Trust safety	-	1,163
	900,543	881,859
EXCESS OF REVENUE OVER EXPENSES	235,783	22,133
FUND EQUITY, BEGINNING OF YEAR	2,265,957	2,243,824
FUND EQUITY, END OF YEAR	\$ 2,501,740	\$ 2,265,957

THE LAW SOCIETY OF MANITOBA
Statement of Professional Liability Claims Fund Operations
and Changes in Equity
For the year ended March 31, 2020

	<u>2020</u>	<u>2019</u>
REVENUE		
Insurance premiums paid by members	\$ 2,815,466	\$ 2,744,530
Investment income	336,075	1,192,160
	<u>3,151,541</u>	<u>3,936,690</u>
EXPENSES		
Administrative expenses	475,000	475,000
Claims paid (Note 9)	1,324,845	364,023
Counsel fees (Note 9)	492,004	624,021
Insurance	609,074	610,999
Office and sundry	3,684	3,580
Professional development	1,049	265
Professional fees	142,380	137,326
Salaries and benefits	562,423	557,098
Technology	5,721	1,595
Travel	3,722	4,857
	<u>3,619,902</u>	<u>2,778,764</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES BEFORE UNDERNOTED	(468,361)	1,157,926
DECREASE (INCREASE) IN RESERVE FOR OUTSTANDING PROFESSIONAL LIABILITY CLAIMS	918,323	(776,037)
EXCESS OF REVENUE OVER EXPENSES	449,962	381,889
FUND EQUITY, BEGINNING OF YEAR	11,054,883	10,672,994
FUND EQUITY, END OF YEAR	\$ 11,504,845	\$ 11,054,883

THE LAW SOCIETY OF MANITOBA
Statement of Education and Competence Fund
Operations and Changes in Equity
For the year ended March 31, 2020

	<u>2020</u>	<u>2019</u>
REVENUE		
Legal education assessment	\$ 629,929	\$ 729,459
Student admission fees	13,200	11,600
Call fee	56,350	58,650
CPLED fees	231,500	253,577
Legal education programs	337,614	365,662
Grant from Manitoba Law Foundation	559,556	267,912
Investment (loss) income	(13,433)	39,662
Material sales	17,012	14,761
Other Income	2,199	1,080
	1,833,927	1,742,363
EXPENSES		
Administrative expenses	200,000	125,000
Call ceremony	11,355	11,408
Catering	27,111	35,708
Curriculum development	55,179	55,890
Honoraria	35,835	45,591
Miscellaneous	236	113
Office and sundry	10,177	12,097
Professional development	7,824	6,224
Professional fees	5,120	15,487
Publications	2,381	12,870
Rent	1,143	3,034
Salaries and benefits	1,036,137	995,146
Service fees	586	400
Technology	13,678	8,615
Telecommunications	683	1,192
Travel	58,552	26,358
	1,465,997	1,355,133
EXCESS OF REVENUE OVER EXPENSES	367,930	387,230
FUND EQUITY, BEGINNING OF YEAR	1,431,963	1,044,733
FUND EQUITY, END OF YEAR	\$ 1,799,893	\$ 1,431,963

THE LAW SOCIETY OF MANITOBA
Statement of Endowment and Trust Funds Operations
and Changes in Equity
For the year ended March 31, 2020

	<u>2020</u>	<u>2019</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	\$ 82	\$ 45
EXCESS OF REVENUE OVER EXPENSES	82	45
FUND EQUITY, BEGINNING OF YEAR	5,860	5,815
FUND EQUITY, END OF YEAR	\$ 5,942	\$ 5,860

THE LAW SOCIETY OF MANITOBA

Statement of Cash Flows

For the year ended March 31, 2020

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses:		
General Fund	\$ 1,788,055	\$ 406,514
Reimbursement Fund	235,783	22,133
Professional Liability Claims Fund	449,962	381,889
General Education and Competence Fund	367,930	387,230
Endowment and Trust Funds	82	45
Items not affecting cash:		
Depreciation	8,786	2,904
Amortization of deferred leasehold incentives	-	(13,995)
Amortization of deferred rent incentive	(20,990)	-
Deferred rent incentive received	-	115,851
Gain on the sale of capital assets	(1,734,000)	-
Reserve for outstanding claims	(918,323)	776,037
Current year net investment income	(179,689)	(1,309,446)
Net change in non-cash working capital	(885,182)	(297,444)
	<u>(887,586)</u>	<u>471,718</u>
INVESTING ACTIVITIES		
Purchases of investments	(1,927,300)	-
Sales of investments	1,200,000	-
Proceeds on the sale of capital assets	1,920,000	-
Purchases of capital assets	(47,774)	(843,628)
	<u>1,144,926</u>	<u>(843,628)</u>
FINANCING ACTIVITY		
Leasehold improvement allowance received	9,638	753,664
INCREASE IN CASH AND TERM DEPOSITS		
	266,978	381,754
CASH AND TERM DEPOSITS, BEGINNING OF YEAR	4,281,761	3,900,007
CASH AND TERM DEPOSITS, END OF YEAR	\$ 4,548,739	\$ 4,281,761

THE LAW SOCIETY OF MANITOBA

Notes to the Financial Statements

March 31, 2020

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, 2020

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, 2020. Income from investments maintained in foreign currencies is translated at the month end spot rate for the month in which it is earned.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2020

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, 2020

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:

	2020		2019	
General Fund	\$ -	0.00%	\$ 1,177,948	5.40%
Reimbursement Fund	399,985	1.76%	399,854	1.83%
Professional Liability Claims Fund	21,812,918	96.01%	19,579,272	89.76%
Education and Competence Fund	502,548	2.21%	651,388	2.99%
Endowment and Trust Funds	5,000	0.02%	5,000	0.02%
	\$22,720,451	100.00%	\$21,813,462	100.00%

5. CAPITAL ASSETS AND ASSETS HELD FOR SALE

	2020			2019
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer equipment and software	\$ 474,822	\$ (332,702)	\$ 142,120	\$ 148,118
Furniture and equipment	236,101	(209,746)	26,355	35,190
Library and lockers	2	-	2	2
Leasehold improvements	658,853	(113,550)	545,303	600,928
	\$ 1,369,778	\$ (655,998)	\$ 713,780	\$ 784,238

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2020

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.

	2020			2019
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ -	\$ -	\$ -	\$ 186,000
Building	-	-	-	-
	\$ -	\$ -	\$ -	\$ 186,000

The Society sold the land and building in the current year for total proceeds of \$2,000,000 offset by a \$80,000 brokerage fees for net proceeds of \$1,920,000 and recognized a gain on the disposal of \$1,734,000.

6. DEFERRED LEASE INCENTIVES

	2020			2019
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Deferred rent incentive	\$ 209,918	\$ (34,985)	\$ 174,933	\$ 195,923
Leasehold improvement allowance	872,213	(189,365)	682,848	782,656
	\$ 1,082,131	\$ (224,350)	\$ 857,781	\$ 978,579

	2020	2019
Balance, beginning of year	\$ 978,579	\$ 202,980
Deferred rent incentive received	-	115,851
Leasehold improvement allowance received	9,638	753,663
Incentive received – relocation and other costs	23,425	75,534
Amounts allocated to expenditures	(153,861)	(169,449)
Balance, end of year	\$ 857,781	\$ 978,579

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, 2020. Management has set aside the sum of \$7,192,861 (2019 - \$8,111,184) as an offset against incurred liability reserves on reported claims. Investments with a market value of \$21,812,918 (2019 - \$19,579,272) are available to pay claims and expenses.

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
March 31, 2020

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>2020</u>	<u>2019</u>
Claims paid		
Total expenses	\$ 1,440,269	\$ 474,869
Recoveries	(115,424)	(110,846)
	<u>\$ 1,324,845</u>	<u>\$ 364,023</u>
Counsel fees		
Total expenses	\$ 996,571	\$ 632,490
Recoveries	(504,567)	(8,469)
	<u>\$ 492,004</u>	<u>\$ 624,021</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, 2019 and these financial statements reflect the extrapolation of information to March 31, 2020.

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

	<u>2020</u>	<u>2019</u>
Change in fair value of plan assets:		
Balance at beginning of year	\$ 25,158,722	\$ 23,027,126
Employer contributions	852,375	844,341
Employee contributions	282,212	277,716
Actual return on plan assets	(330,794)	1,554,601
Benefits paid	(443,320)	(545,062)
Fair value, end of year	<u>\$ 25,519,195</u>	<u>\$ 25,158,722</u>

THE LAW SOCIETY OF MANITOBA
Notes to the Financial Statements
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10. PENSION PLAN (continued)

	<u>2020</u>	<u>2019</u>
Change in accrued benefit obligation:		
Balance at beginning of year	\$ 20,162,729	\$ 18,639,342
Current service cost	880,880	861,171
Interest cost on benefit obligation	1,008,136	931,967
Employee contributions	282,212	277,716
Benefits paid	(443,320)	(545,062)
Actuarial loss on accrued benefit obligation	(633,440)	(2,405)
Benefit obligation, end of year	\$ 21,257,197	\$ 20,162,729

Funded status:		
Market value of plan assets, end of year	\$ 25,519,195	\$ 25,158,722
Defined benefit obligation, end of year	21,257,197	20,162,729
Accrued benefit asset	\$ 4,261,998	\$ 4,995,993

	(Percentage of plan assets)	
	<u>2020</u>	<u>2019</u>
Canadian equities	18%	19%
Foreign equities	42%	43%
Fixed income	35%	31%
Short term investments	5%	7%
Total	100%	100%

	<u>2020</u>	<u>2019</u>
Defined benefit costs:		
Current service cost	\$ 880,880	\$ 861,171
Finance costs	(249,800)	(219,389)
Costs arising in the period	\$ 631,080	\$ 641,782

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

	<u>2020</u>	<u>2019</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% (2019 – 60%) of its investment assets in fixed income securities and 40% (2019 – 40%) in equities as at March 31, 2020. 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, 2020 was 4.00% (2019 – 2.78%).

The term to maturity and related market values of investments in short-term deposits, bonds and debentures held by the Society at March 31, 2020 are as follows:

	2020		2019
	Market		Market
	Value		Value
Less than one year	\$ -	\$	-
One to five years	563,298		560,787
Five to ten years	-		-
Greater than ten years	936,409		936,443
	\$ 1,499,707	\$	1,497,230

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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, 2020 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, 2020 related to bonds and debentures is categorized among the following types of issuers.

<u>Type of Issuer</u>	2020 Market Value	2019 Market Value
Government of Canada and Government of Canada guaranteed	\$ 391,445	\$ 382,949
Provincial and Provincial guaranteed Corporations	402,989 705,273	393,158 721,123
	\$ 1,499,707	\$ 1,497,230

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, 2020 the Society's foreign currency exposure was \$6,405,064 (2019 - \$6,301,820). 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:

2021	\$ 544,727
2022	557,361
2023	570,501
2024	617,084
2025	647,755

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.

13. RECENT EVENTS

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, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including that of the Law Society of Manitoba. 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 business.