



TAB 8

**Report to Convocation
December 1, 2017**

Audit & Finance Committee

Committee Members

Chris Bredt (Chair)
Suzanne Clément (Vice Chair)
Teresa Donnelly (Vice-Chair)
Peter Beach
Paul Cooper
Janis Criger
Seymour Epstein
Michelle Haigh
David Howell
Vern Krishna
Jan Richardson
Cathy Strosberg
Tanya Walker

Purpose of Report: Decision and Information

**Prepared by the Finance Department
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COMMITTEE PROCESS

1. The Audit & Finance Committee (“the Committee”) met on November 8, 2017.
2. Committee members in attendance were Chris Bredt (Chair), Suzanne Clément (Vice-Chair), Teresa Donnelly (Vice-Chair), Peter Beach, Paul Cooper, Janis Criger, Michelle Haigh, David Howell, Vern Krishna, Jan Richardson (phone), Cathy Strosberg and Tanya Walker.
3. Law Society staff in attendance: Diana Miles, Elliot Spears, Fred Grady, Brenda Albuquerque-Boutilier, Andrew Cawse and Mary Giovinazzo.
4. Also in attendance: Stephanie Kalinowski (Hicks Morley), Michael Hawtin (PwC), and Matthew Kerr (PwC).

TAB 8.2

REPORTS FOR INFORMATION

TAB 8.2.1

FOR INFORMATION
LAW SOCIETY OF UPPER CANADA FINANCIAL STATEMENTS FOR THE NINE
MONTHS ENDED SEPTEMBER 30, 2017

30. **The Committee recommends that Convocation receive the third quarter financial statements for the Law Society for information.**

Rationale

31. This is part of the quarterly financial reporting schedule to Convocation. These interim statements convey the performance of the Law Society before the end of the year. Unlike annual statements, interim statements are not audited.
32. The quarterly financial statements for the subsidiary, LibraryCo is included in this Report to Convocation. The quarterly financial statements for the subsidiary, LAWPRO, will be presented after approval by LAWPRO's board.

**Law Society of Upper Canada
Financial Statements
For the nine months ended September 30, 2017**

Financial Statement Highlights

33. The combined lawyer and paralegal General Funds incurred a surplus of \$1.8 million at the end of the third quarter of 2017 compared to a surplus of \$6.1 million at the same time last year. The change from 2016 is primarily due to an increase in professional regulation and professional development & competence expenses.
34. The Lawyer General Fund generated a surplus of \$1.7 million at the end of the third quarter of 2017 (2016: \$4.8 million).
35. The Paralegal General Fund generated a surplus of \$158,000 at the end of the third quarter of 2017 (2016: \$1.3 million).
36. For the significant revenue and expense categories, there are consistent positive variances compared to budget. Some variances from budget can be attributed to timing differences. Reduced staff vacancies towards the end of the year will reduce some of the positive variances.
37. The Law Society's restricted funds report a deficit of \$6.5 million (2016: \$2.1 million) primarily because of a \$6 million deficit in the Lawyer Compensation Fund. The Compensation Fund's adverse claims experience in recent years continues in 2017 and the fund balance (\$6.8 million) is well below the minimum (\$13 million) required by the Fund Balance Management Policy. Steps to refinance the Lawyer Compensation Fund are included in the 2018 budget approved by Convocation and measures to address the adverse claims experience are being considered.
38. For the General Fund, the first nine months of the year has resulted in revenues exceeding budget by \$843,000 and total expenses coming in under budget by \$7.7 million. The Law Society is on track to exceed its 2017 budget expectations and its financial position remains strong with the exception of the adverse claims experience in the Lawyer Compensation Fund.

Background

39. The Financial Statements are prepared under Generally Accepted Accounting Principles for Canadian not-for-profit organizations using the restricted fund method of accounting.
40. The Financial Statements for the nine months ended September 30, 2017 comprise the following statements:

- Balance Sheet
- Statement of Revenues and Expenses and Change in Fund Balances, detailing results of operations for lawyers and paralegals
- Schedule of Restricted Funds
- Supplemental schedules include Schedules of Revenues and Expenses for the Combined General Fund, Lawyer and Paralegal General Funds, the Compensation Fund and the Errors and Omissions Insurance Fund.

Statement of Revenues and Expenses and Change in Fund Balances

41. The Lawyer General Fund had a surplus of \$1.7 million at the end of the third quarter of 2017 (2016: \$4.8 million). The 2017 budget incorporates \$4.8 million of the lawyer General Fund Balance to mitigate fee increases in 2017 and also incorporates \$600,000 in funding from surplus investment income in the E&O Fund. Actual use of the fund balance and the E&O Fund transfer is contingent on a deficit occurring.

42. The Paralegal General Fund had a surplus of \$158,000 (2016: \$1.3 million). The 2017 budget incorporates the use of \$1 million in funding from the paralegal Fund Balance to provide for a budgeted operating deficit. Actual use of the fund balance is contingent on a deficit occurring.

43. The Law Society's restricted funds report a deficit of \$6.6 million for the period (2016: \$2.1 million). The material components are:
 - a \$6 million deficit in the Lawyer Compensation Fund due to an increase in grants anticipated to be closed with payment
 - a \$258,000 surplus in the E&O Fund
 - a \$1 million surplus in the Capital Allocation Fund as capital expenditures have lagged funds raised over the period
 - the \$1.6 million amortization expense in the Invested in Capital & Intangible Assets Fund.

44. The 2017 budget included an annual fee increase for lawyers and paralegals of \$50 for an annual fee of \$1,916 and \$1,046 respectively and an increase of 700 in the number of lawyers to a Full Fee Paying Equivalent total of 40,200 and an increase of 550 in the number of paralegals to a Full Fee Paying Equivalent total of 5,600. Annual fees recognized up to the end of September of \$61 million have increased by \$3 million due to the increase in licensees and the increases in the annual fees. Both lawyer and paralegal annual fees exceed budget by a small amount. Annual fee revenue is recognized on a monthly basis.

45. Although the annual fee increased by \$50 in total, for lawyers the General fee component decreased by \$42, the Compensation Fund component increased by \$35 and the Capital component increased by \$57 with similar changes for paralegals. The LibraryCo levy paid by lawyers was unchanged. This explains the variations across the funds.

46. LAWPRO's base premium (\$2,950) decreased by \$400 from 2016, leading to a \$3 million decline in E&O Fund premium and levy revenue to \$76.5 million.
47. Professional development and competence revenue comprises licensing process and continuing professional development revenue:
- At \$11.2 million, lawyer and paralegal licensing process revenue is \$300,000 more than last year and more than budget because of more lawyer candidates within the process for instance, with more exam rewrites. The total lawyer Licensing Process fee including the fees for the initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar, is \$4,710, unchanged from last year and the paralegal license fee is also unchanged.
 - Lawyer and paralegal continuing professional development revenue of \$4.6 million is less than last year (2016: \$5.2 million) and less than budget. The timing of some large programs has changed this year and the ratio of nominal fee programs to traditional fee generating programs also varies between periods. Traditionally, fall has been CPD's busiest period and registrations will continue to be closely monitored for trends.
48. Total investment income, comprising interest and dividends of \$1.4 million has been reduced by the \$214,000 negative change in the fair value of investments since the beginning of the year. These results are a reflection of the broad fixed income and Canadian equity markets during the period. At just over 3%, returns on the portfolio exceeded the benchmark for the period of just over 1%.
49. Other revenue totalling \$5.8 million (2016: \$6.8 million) includes Ontario Report royalties of \$1.2 million, catering revenues of \$643,000 and administrative fees such as late fees of \$873,000, professional corporation and payment plan fees. The decrease from 2016 is due to a reduction in ordered costs and the end of the funding from the Law Foundation of The Action Group for access to justice. (It is still intended to complete TAG's intended mandate for the year using savings in other areas of the External Relations budget). Other revenue for the period is nominally less than budget.
50. Professional Regulation, Tribunals and Compliance expenses totaling \$20.9 million (2016: \$20.3 million) are more than last year as budgeted but are \$2.4 million less than budget due to staff vacancies associated with the department's reorganization. The variance is spread across all areas. There has been an increased use of outside counsel as a measure to counter the staff vacancies and recruiting continues with an additional recruiter included in the 2018 budget.
51. There is at least a reasonable possibility that one or more other cost awards from the Law Society's regulatory proceedings may be awarded against the Law Society but the amount of any losses cannot be reliably estimated at this time. The Society has determined that the ultimate settlement for these costs awards could range from nil to

approximately \$1 million, and because of the uncertainty no provision has been made in compliance with accounting standards.

52. Total professional development and competence expenses are \$21.2 million (2016: \$19.5 million) and are \$981,000 less than budget. The variances from the prior year are due to increased activity in the Licensing Process and expenses for the coach and advisor program have started as budgeted. Licensing process expenses continue to increase and are over budget but this negative variance is somewhat offset by the positive variance in licensing process revenues and other also positive variances in other PD&C departments such as the Library, Spot Audit and Practice Review. With the high number of candidates, licensing process administrative expenses such as invigilation and facilities rental are higher than budgeted. Significant resources continue to be devoted to candidate's special needs and accommodation requirements. In the last five years, requests for accommodations have doubled for lawyers and tripled for paralegals.
53. Corporate services expenses of \$18.8 million (2016: \$16.7 million), primarily comprise Information Technology, Finance, Legal, Human Resources, Facilities and other administrative expenses and are less than budget.
54. All the significant components of convocation, policy and outreach expenses of \$4.8 million (2016: \$5.9 million) are under budget and less than last year primarily because of staff vacancies arising from departmental reorganizations.

Schedule of Restricted Funds

55. The E&O Fund accounts for the mandatory professional liability insurance program of the Law Society which is administered by LAWPRO. The insurance premium expense, as well as related levies and income from their investment are tracked within this fund. The Law Society is insured for lawyers' professional liability and recovers annual premium costs from lawyers through a combination of annual base levies and additional levies that are charged based on a lawyer's claims history, status, and real estate and litigation levies. The fund is reporting a surplus of \$258,000 (2016 – deficit of \$94,000) due to investment related income. There are no premium contributions to mitigate the base insurance levy for lawyers in 2017. Revenue from insurance premiums and levies is recognized on a monthly basis. LAWPRO's base premium of \$2,950 is \$400 less than the \$3,350 in prior years, offsetting the increase in number of insureds for a net decrease in premium and levy revenue to \$76.5 million from \$80 million. This trend is matched in the expenses in the Errors and Omissions Insurance Fund.
56. The lawyer Compensation Fund annual fee income increased from \$7.4 million in 2016 to \$8.7 million in line with the \$35 increase in the levy and the increase in the number of lawyers. The paralegal levy also increased. The Compensation Fund's total investment results have deteriorated from \$1.3 million in 2016 to \$513,000 due market conditions.

57. As discussed elsewhere, the lawyer Compensation Fund continues to experience a high claims experience with provision for unpaid grant expenses increasing from \$4.3 million in 2016 to \$9.4 million in 2017.
58. County Libraries Fund revenues and expenses are relatively static at \$5.8 million.

Balance Sheet

59. The total of cash and short-term investments has declined by \$3.7 million. The mix between cash and short-term investments has changed base on the timing of transactions and the portfolio manager's asset mix choices.
60. Most of the prepaid expense balance of \$28.8 million relates to annual E&O insurance premiums paid or payable for the year, which are expensed over the full year.
61. The investment in subsidiaries represents the 100% ownership of LAWPRO totaling \$35.6 million and the 100% ownership of LibraryCo totaling \$200.
62. Portfolio investments are shown at fair value of \$67.4 million, a nominal increase from 2016. In February this year, Convocation approved a revised Investment Policy for the Law Society which increased the benchmark Canadian equity component from 15% to 30%. Equities were at 31% of the asset mix at the end of September.
63. Deferred revenue (\$46.2 million) is made up of annual fees, licensing process revenues and insurance premiums which are recognized over the full year. The balance has declined slightly from the same time in 2016 as, within the E&O Fund, the base premium for professional liability insurance coverage for Ontario lawyers decreased \$400 from the 2016 premium.
64. The Due to LAWPRO balance of \$26.3 million will decline by year-end as insurance premiums and levies collected are paid to LAWPRO.
65. The provision for unpaid grants of \$24.1 million (2016 - \$21.2 million) represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The Fund continues to process some large alleged defalcations on the part of certain licensees but the underlying volume of grant applications continues at a high level. The paralegal Compensation Fund provision for unpaid grants comprises \$273,000 of the total Compensation Fund provision for unpaid grants.
66. The Law Society Act permits a member who has dormant trust funds, to apply for permission to pay the money to the Law Society. Money paid to the Law Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. At the end of September, unclaimed money held in trust amounts to \$5 million, compared to \$4.9 million in the prior year.

67. The operating surpluses in the lawyer and paralegal General Funds have increased the fund balances to \$25.1 million and \$5.2 million respectively, still within the parameters established by Convocation's fund balance administration policy.
68. The lawyer Compensation Fund's deficit in the period of \$6 million continues to erode the lawyer Compensation Fund balance to \$6.8 million a reduction of \$7.1 million over the twelve month period. The increase in the Compensation Fund levy in 2017 to replenish the fund balance has only slowed the decrease. The fund balance is below the minimum level which is required by Convocation's fund balance administration policy, approximately \$13 million. The fund balance policy requires the minimum benchmark to be restored within three years. Refinancing of the lawyer Compensation Fund balance has been addressed as part of 2018 budget deliberations.

Conclusion

69. Overall, the first three quarters of the year have resulted in greater than projected revenues and less than projected expenses. The Law Society is on track to exceed its 2017 budget expectations, its operating financial position remains strong although claims against the Compensation Fund continue to reduce the fund balance which is well below the minimum balance required by the Fund Balance Management Policy.

THE LAW SOCIETY OF UPPER CANADA

Balance Sheet

Unaudited

Stated in thousands of dollars

As at September 30

	2017	2016
Assets		
Current Assets		
1 Cash	13,617	29,399
2 Short-term investments	43,668	31,689
3 Accounts receivable	25,827	24,444
4 Prepaid expenses	28,769	29,446
5 Total current assets	111,881	114,978
6 Investment in subsidiaries	35,642	35,642
7 Portfolio investments	67,433	66,979
8 Capital assets	7,692	8,460
9 Intangible assets	377	547
10 Total Assets	223,025	226,606
Liabilities and Fund Balances		
Current Liabilities		
11 Accounts payable and accrued liabilities	11,129	10,426
12 Deferred revenue	46,243	47,018
13 Due to LAWPRO	26,323	25,342
14 Total current liabilities	83,695	82,786
15 Provision for unpaid grants/claims	24,136	21,199
16 Unclaimed trust funds	5,042	4,863
17 Total Liabilities	112,873	108,848
Fund Balances		
General funds		
18 Lawyers	25,135	26,102
19 Paralegals	5,223	5,163
Restricted funds		
20 Compensation - lawyers	6,819	13,978
21 Compensation - paralegals	618	595
22 Errors and omissions insurance	55,842	55,237
23 Capital allocation	7,650	6,868
24 Invested in capital and intangible assets	8,069	9,007
25 County libraries	(14)	(64)
26 Other	810	872
27 Total Fund Balances	110,152	117,758
28 Total Liabilities and Fund Balances	223,025	226,606

THE LAW SOCIETY OF UPPER CANADA**Statement of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the nine months ended September 30*

	2017	2016	2017	2016	2017	2016	2017	2016
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
1 Annual fees	39,392	39,479	3,225	3,143	18,767	15,437	61,384	58,059
2 Insurance premiums and levies	-	-	-	-	76,520	79,945	76,520	79,945
3 Professional development and competence	13,448	13,835	2,337	2,330	-	-	15,785	16,165
4 Investment income	436	434	48	41	948	978	1,432	1,453
5 Change in fair value of investments	(46)	304	(5)	29	(163)	1,110	(214)	1,443
6 Other	5,060	5,464	722	684	102	644	5,884	6,792
7 Total revenues	58,290	59,516	6,327	6,227	96,174	98,114	160,791	163,857
Expenses								
8 Professional regulation, tribunals and compliance	18,678	18,578	2,254	1,759	-	-	20,932	20,337
9 Professional development and competence	19,259	17,903	1,958	1,580	-	-	21,217	19,483
10 Corporate services	16,943	15,226	1,902	1,442	-	-	18,845	16,668
11 Convocation, policy and outreach	4,360	5,518	396	440	-	-	4,756	5,958
12 Services to members and public	3,016	2,826	191	159	-	-	3,207	2,985
13 Allocated to Compensation Fund	(5,629)	(5,318)	(532)	(450)	-	-	(6,161)	(5,768)
14 Restricted	-	-	-	-	102,724	100,197	102,724	100,197
15 Total expenses	56,627	54,733	6,169	4,930	102,724	100,197	165,520	159,860
16 Surplus (Deficit)	1,663	4,783	158	1,297	(6,550)	(2,083)	(4,729)	3,997
17 Fund balances, beginning of year	23,602	21,407	5,065	3,866	86,214	88,488	114,881	113,761
18 Interfund transfers	(130)	(88)	-	-	130	88	-	-
19 Fund balances, end of period	25,135	26,102	5,223	5,163	79,794	86,493	110,152	117,758

THE LAW SOCIETY OF UPPER CANADA**Schedule of Restricted Funds***Unaudited**Stated in thousands of dollars**For the nine months ended September 30*

	2017							2016	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
	Lawyer	Paralegal							
1 Fund balances, beginning of year	12,825	597	55,584	6,529	9,711	-	968	86,214	88,488
Revenues									
2 Annual fees	8,710	642	-	3,568	-	5,847	-	18,767	15,437
3 Insurance premiums and levies	-	-	76,520	-	-	-	-	76,520	79,945
4 Investment income	552	61	335	-	-	-	-	948	978
5 Change in fair value of investments	(90)	(10)	(63)	-	-	-	-	(163)	1,110
6 Other	28	-	-	74	-	-	-	102	644
7 Total revenues	9,200	693	76,792	3,642	-	5,847	-	96,174	98,114
Expenses									
8 Allocated expenses	5,629	532	-	-	-	-	-	6,161	5,768
9 Direct expenses	9,577	140	76,534	2,621	1,642	5,861	188	96,563	94,429
10 Total expenses	15,206	672	76,534	2,621	1,642	5,861	188	102,724	100,197
11 (Deficit) Surplus	(6,006)	21	258	1,021	(1,642)	(14)	(188)	(6,550)	(2,083)
12 Interfund transfers	-	-	-	100	-	-	30	130	88
13 Fund balances, end of period	6,819	618	55,842	7,650	8,069	(14)	810	79,794	86,493

THE LAW SOCIETY OF UPPER CANADA
Lawyers and Paralegals General Fund
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	42,622	42,617	42,035	582
2 Professional development and competence	16,165	15,785	15,344	441
3 Investment income	475	484	581	(97)
4 Change in fair value of investments	333	(51)	-	(51)
5 Other	6,148	5,782	5,814	(32)
6 Total revenues	65,743	64,617	63,774	843
EXPENSES				
7 Professional regulation, tribunals and compliance	20,337	20,932	23,346	2,414
8 Professional development and competence	19,483	21,217	22,198	981
9 Corporate services	16,668	18,845	20,336	1,491
10 Convocation, policy and outreach	5,958	4,756	7,915	3,159
11 Services to members and public	2,985	3,207	3,359	152
12 Allocated to Compensation Fund	(5,768)	(6,161)	(6,661)	(500)
13 Total expenses	59,663	62,796	70,493	7,697
14 Surplus (Deficit)	6,080	1,821	(6,719)	8,540

THE LAW SOCIETY OF UPPER CANADA
General Fund - Lawyers
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	39,479	39,392	38,842	550
2 Professional development and competence	13,835	13,448	13,239	209
3 Investment income	434	436	523	(87)
4 Change in fair value of investments	304	(46)	-	(46)
5 Other	5,464	5,060	5,165	(105)
6 Total revenues	59,516	58,290	57,769	521
EXPENSES				
7 Professional regulation, tribunals and compliance	18,578	18,678	21,044	2,366
8 Professional development and competence	17,903	19,259	19,965	706
9 Corporate services	15,226	16,943	18,209	1,266
10 Convocation, policy and outreach	5,518	4,360	7,220	2,860
11 Services to members and public	2,826	3,016	3,150	134
12 Allocated to Compensation Fund	(5,318)	(5,629)	(6,087)	(458)
13 Total expenses	54,733	56,627	63,501	6,874
14 Surplus (Deficit)	4,783	1,663	(5,732)	7,395

THE LAW SOCIETY OF UPPER CANADA
General Fund - Paralegals
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2016 Actual	2017 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	3,143	3,225	3,193	32
2 Professional development and competence	2,330	2,337	2,105	232
3 Investment income	41	48	58	(10)
4 Change in fair value of investments	29	(5)	-	(5)
5 Other	684	722	649	73
6 Total revenues	6,227	6,327	6,005	322
EXPENSES				
7 Professional regulation, tribunals and compliance	1,759	2,254	2,302	48
8 Professional development and competence	1,580	1,958	2,233	275
9 Corporate services	1,442	1,902	2,127	225
10 Convocation, policy and outreach	440	396	695	299
11 Services to members and public	159	191	209	18
12 Allocated to Compensation Fund	(450)	(532)	(574)	(42)
13 Total expenses	4,930	6,169	6,992	823
14 Surplus (Deficit)	1,297	158	(987)	1,145

THE LAW SOCIETY OF UPPER CANADA**Compensation Fund****Schedule of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the nine months ended September 30*

	2017			2016		
	Lawyers	Paralegals	Total	Lawyers	Paralegals	Total
Revenues						
1 Annual fees	8,710	642	9,352	7,441	550	7,991
2 Investment income	552	61	613	560	53	613
3 Change in fair value of investments	(90)	(10)	(100)	594	56	650
4 Recoveries	15	-	15	401	47	448
5 Total Revenues	9,187	693	9,880	8,996	706	9,702
Expenses						
6 Provision for unpaid grants	9,368	86	9,454	4,292	63	4,355
7 Spot audit	2,896	322	3,218	2,741	260	3,001
8 Share of investigation and discipline	1,445	80	1,525	1,485	82	1,567
9 Administrative	1,306	184	1,490	1,106	147	1,253
10 Salaries and benefits	191	-	191	398	-	398
11 Total Expenses	15,206	672	15,878	10,022	552	10,574
12 (Deficit) Surplus	(6,019)	21	(5,998)	(1,026)	154	(872)
13 Fund balances, beginning of year	12,825	597	13,422	14,905	441	15,346
14 Fund Balances, end of period	6,806	618	7,424	13,879	595	14,474

THE LAW SOCIETY OF UPPER CANADA
Errors and Omissions Insurance Fund
Schedule of Revenues and Expenses and Change in Fund Balance

Unaudited

Stated in thousands of dollars

For the nine months ended September 30

	2017	2016
	Actual	Actual
REVENUES		
1 Insurance premiums and levies	76,520	79,945
2 Investment income	335	365
3 Change in fair value of investments	(63)	460
4 Total revenues	76,792	80,770
EXPENSES		
5 Claims	14	(70)
6 Insurance	76,520	79,945
7 Total expenses	76,534	79,875
8 Surplus	258	895
9 Fund balance, beginning of year	55,584	54,342
10 Fund balance, end of period	55,842	55,237

TAB 8.2.2

FOR INFORMATION
LIBRARYCO INC. FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2017

70. **The Committee recommends that Convocation receive the third quarter financial statements for LibraryCo Inc. for information.**
71. The quarterly financial statements were approved by the LibraryCo Board.



LIBRARYCO INC.

FINANCIAL REPORT

For the nine months ended September 30, 2017

KEY POINT SUMMARY

Overall Results

- 72. Results for the third quarter identify a surplus of \$83,266 compared to a budgeted deficit of \$95,906 for the 9 months. The 2017 budget envisages a \$158,572 deficit for the year through the use of the General Fund balance.
- 73. The positive variance from budget of \$179,172 is spread across most expense categories particularly consulting fees, transition expenses, publications, Board of Directors expenses and the group benefit plan.

Revenues

- 74. The Law Society grant (line 1) includes amounts for central administration and quarterly transfers to the 48 libraries. The actual grant from the Law Society was \$5,861,475 and matched budgeted amounts for the period.
- 75. Interest Income (line 2) is earned on LibraryCo's cash and short term investments.

Expenses

- 76. Total expenses (line 16) were \$5,782,144 compared to a budgeted total for the period of \$5,957,381.
- 77. The administration expense (line 4) of \$228,750 represents the fee paid to the Law Society and equals budget. The fee remained at the 2016 rate.
- 78. Professional fees (line 5) include audit expenses and consulting fees. The consulting fee budget remains unspent which has resulted in a positive variance of \$12,949.
- 79. Transition expenses (line 6) budgeted at \$63,750 for the three quarters to date were unspent.
- 80. Other head-office expenses (line 7) include the production of the Annual Report, head office courier/postage costs, Directors and Officers insurance, bank charges, website maintenance costs, the cost of providing most libraries with a toll free telephone number and governance meeting expenses.
- 81. Totalling \$12,697, other head-office expenses are lower than budget for the period by approximately \$24,526 primarily as a result of underspending for the production of the Annual Report, board of directors' meetings, web initiatives, toll free telephone charges, and miscellaneous expenses.

82. Electronic product expenses of \$254,250 (line 9) are in line with the agreement with LexisNexis and budget.
83. Group benefits and insurance (line 10) of \$235,214 consist of the Group Benefits for enrolled library staff and library D&O and property insurance. Group benefits and insurance are lower than budget by \$24,311 as group benefits premiums are negotiated after the budget and these are budgeted conservatively. The D&O and property insurance policies expired at the end of April and a conservative increase in insurance for the remainder of 2017 was also taken into consideration when budgeting for 2017.
84. Other centralized expenses (line 11) of \$48,636 include continuing education bursaries for library staff, library courier costs for inter-library loans of materials, publications provided by the Law Society to each of the 48 law libraries, and the Federation of Ontario Law Associations' (FOLA) meeting expenses for their Library Committee. Other centralized expenses are lower than budget by \$44,317 due to underspending in continuing education bursaries, publications and courier costs.
85. County and District law libraries grants (line 13) are in line with budget at \$4,959,543 and increased from 2016.
86. Bursaries, capital and special needs grants (line 14) of \$33,504 consist of computer refreshment grants, special needs grants and conference bursaries for library staff. Computer purchases by the libraries and special needs grants during the year do not follow a pattern.

Balance Sheet

87. Short-term investments (line 2) of \$402,159 consist of a one year GIC and accrued interest.
88. Accounts receivable (line 3) are long term disability benefits premiums paid by LibraryCo on the libraries' behalf for the past quarter. These receivables are usually repaid early in the next quarter.
89. Prepaid expenses (line 4) primarily represent the property and D&O insurance policies for LibraryCo and the libraries which were renewed at the end of April.
90. Accounts payable and accrued liabilities (line 6) are \$32,532 lower than 2016 due to the accrual for Phase 5's third invoice for transition expenses in 2016.
91. The General Fund has increased to \$262,623. The 2017 budget forecasted a decrease of \$158,572 during the year however, based on information available at September 30, 2017, estimates for year-end show an increase in the General Fund of approximately \$35,000, meaning a projected General Fund balance at 2017 year-end of \$297,000. This estimate is likely if no transition or consulting expenses are incurred in 2017.

LibraryCo's budget for 2018 envisages using \$158,572 of this fund balance to finance operations next year.

92. The Reserve Fund has a balance at the end of September of \$500,000 comprising a general component of \$200,000, a capital and special needs component of \$150,000, and a staffing and severance component of \$150,000 in accordance with Board policy.

LIBRARYCO INC.
Schedule of Actual and Budgeted Revenues and Expenses
Stated in Dollars
For the nine months ended September 30
Unaudited

	2017 Actual	YTD Budget	Variance	Annual Budget	2016 Actual
REVENUES					
1 Law Society of Upper Canada grant	5,861,475	5,861,475	-	7,815,240	5,746,501
2 Interest income	3,935	-	3,935	-	3,683
3 Total revenues	5,865,410	5,861,475	3,935	7,815,240	5,750,184
EXPENSES					
Head office/administration					
4 Administration	228,750	228,750	-	305,000	228,750
5 Professional fees	9,550	22,499	12,949	30,000	9,405
6 Transition expenses	-	63,750	63,750	85,000	85,852
7 Other	12,697	37,223	24,526	48,400	13,449
8 Total Head office/administration expenses	250,997	352,222	101,225	468,400	337,456
Law Libraries - centralized purchases					
9 Electronic products and services	254,250	254,250	-	339,000	254,250
10 Group benefits and insurance	235,214	259,525	24,311	352,000	234,334
11 Other	48,636	92,953	44,317	156,800	46,773
12 Total Law Libraries - centralized purchases	538,100	606,728	68,628	847,800	535,357
13 County and District law libraries - grants	4,959,543	4,959,543	-	6,612,724	4,857,573
14 Bursaries, capital and special needs grants	33,504	38,888	5,384	44,888	25,766
15 Total County and District Law Libraries Expenses	4,993,047	4,998,431	5,384	6,657,612	4,883,339
16 Total expenses	5,782,144	5,957,381	175,237	7,973,812	5,756,152
17 Surplus (Deficit)	83,266	(95,906)	179,172	(158,572)	(5,968)

This statement includes the revenues and expenses of the LibraryCo entity only.

LIBRARYCO INC.
Balance Sheet
Stated in Dollars
As at September 30
Unaudited

	2017	2016
Assets		
Current Assets		
1 Cash	323,723	338,368
2 Short-term investments	402,159	402,159
3 Accounts receivable	19,363	20,925
4 Prepaid expenses	53,226	54,041
5 Total Assets	798,471	815,493
Liabilities, Share Capital and Fund Balances		
Current Liabilities		
6 Accounts payable and accrued liabilities	35,648	68,180
7 Total Liabilities	35,648	68,180
Share Capital and Fund Balances		
8 Share capital	200	200
9 General fund	262,623	247,113
10 Reserve fund	500,000	500,000
11 Total Share Capital and Fund Balances	762,823	747,313
12 Total Liabilities, Share Capital and Fund Balances	798,471	815,493

This Balance Sheet includes the financial resources of the LibraryCo entity only.

LIBRARYCO INC.
Statement of Changes in Fund Balances
Stated in Dollars
For the nine months ended September 30

	2017		2016	
	General Fund	Reserve Fund	Total	Total
1 Balance, beginning of year	179,357	500,000	679,357	753,081
2 Surplus (Deficit)	83,266	-	83,266	(5,968)
3 Balance, end of period	262,623	500,000	762,623	747,113

This statement includes the fund balances of the LibraryCo entity only.

TAB 8.2.3

FOR INFORMATION

INVESTMENT COMPLIANCE REPORTS

93. Compliance Statements for the General Fund, Compensation Fund, and Errors & Omissions Insurance Fund portfolios as at September 30, 2017 are for information and appear on the following page.

**LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
SHORT TERM
As at September 30, 2017**

		COMPENSATION	GENERAL
Investment Parameters	Guidelines for Both	Compliance	Compliance
1. <u>Asset Mix</u>			
Federal & provincial treasury bills	Allowed	Yes	Yes
Bankers acceptances	Allowed	Yes	Yes
Commercial paper	Allowed	Yes	Yes
Investment manager Money Market Fund	Allowed	Yes	Yes
Premium Savings Account	Allowed	Yes	Yes
FGP S/T Invest Fund	Allowed	Yes	Yes
2. <u>Quality Requirements</u>			
Commercial paper rating	Min. R1	N/A	N/A
Liquidity	Max. term to maturity of 365 days	Yes	Yes
3. <u>Quantity Restrictions</u>			
Commercial paper of a single corporate issuer	Max. 8% of Fund	Yes	Yes
4. <u>Other Restrictions</u>			
Equity securities	None	Yes	Yes
Direct investments in:			
resource properties	None	Yes	Yes
mortgages and mortgage-backed securities	None	Yes	Yes
real estate	None	Yes	Yes
venture capital financings	None	Yes	Yes
Derivatives	None	Yes	Yes



Fred Grady
Senior Manager, Finance

**LAW SOCIETY OF UPPER CANADA
STATEMENT OF INVESTMENT COMPLIANCE
LONG TERM
As at September 30, 2017**

Investment Parameters	Guidelines	Target	COMPENSATION	GENERAL	E & O
			FUND	FUND	FUND
			Compliance	Compliance	Compliance
1. <u>Asset Mix</u>					
Cash and Short-Term	0 - 15%	0%	Yes	Yes	Yes
Equity investments	20 - 40%	30%	Yes	Yes	Yes
Bonds	45 - 80%	70%	Yes	Yes	Yes
2. <u>Quality Requirements</u>					
Bonds	Min. BBB		Yes	Yes	Yes
3. <u>Quantity Restrictions</u>					
Equities:					
Single holding	Max. 10%		Yes	Yes	Yes
Weight in portfolio > weight in S&P/TSX Composite Index	Varies		Yes	Yes	Yes
Derivatives etc.	None		Yes	Yes	Yes
Non-Canadian	None		Yes	Yes	Yes
Bonds:					
Government of Canada or Government of Canada guaranteed bonds	26-100%	46%	Yes	Yes	Yes
Provincial Government and Provincial Government guaranteed bonds and municipal bonds	0-38%	18%	Yes	Yes	Yes
Corporate Bonds*	0-56%	36%	Yes	Yes	Yes
Target for BBB bonds within corporate bonds of the fixed income portfolio	0-18%	8%	Yes	Yes	Yes



Fred Grady
Senior Manager, Finance

**The Law Society of Upper Canada
Compensation Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending September 30, 2017)**

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	60%	70%	80%	Y
Canadian Equity	20%	30%	40%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Each bond portfolio may be invested within the following parameters:				
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				Y

Note: In mid-June 2014 Law Society Compensation Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

04 25, 2017
Date:

Colin Ripsman
Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services

**The Law Society of Upper Canada
General Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending September 30, 2017)**

1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	60%	70%	80%	Y
Canadian Equity	20%	30%	40%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				Y

Note: In mid-June 2014 Law Society General Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

Date: Oct 25, 2017



Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services



October 2017

Ms. Wendy Tysall
Chief Financial Officer
Osgoode Hall
Finance Dept., 1st Floor
130 Queen Street West
Toronto, Ontario
M5H 2N6

Dear Wendy:

Re: Manager Compliance Reporting

For the Law Society of Upper Canada Errors and Omissions Insurance Fund, we wish to confirm that the portfolio being managed by Foyston, Gordon & Payne Inc. was in compliance with the Fund's Investment Policy Statement dated February 23, 2017, for the quarter ending September 30, 2017.

Yours truly,

Colin Ripsman
Vice President & Portfolio Manager –
Institutional Client Services

TAB 8.2.4

FOR INFORMATION

OTHER COMMITTEE WORK

94. The Committee approved the updated and renamed Pension Plan Governance Structure and Guidelines to reflect:
- i. the ongoing monitoring and other tasks performed in relation to the Retirement Savings Plan for Employees of the Law Society
 - ii. related revisions to the Roles and Responsibilities Table
 - iii. expanded conflict of interest provisions; and
 - iv. housekeeping changes such as outdated references to Standard Life (now Manulife).
- The changes to the Pension Plan Governance Structure and Guidelines is conditional upon the amendment to the By-law to expand the authority of the Audit & Finance Committee to include oversight of the Retirement Savings Plan.
95. The Committee received pension plan fiduciary and governance training and received the triennial assessment of the governance of the Pension Plan and the governance structure and guidelines.
96. The Committee received the audit plan for the Law Society and the fund of the pension plan of the employees of the Law Society for the 2017 financial year.
97. The Committee received the latest Litigation Report from the Law Society's Office of General Counsel.
98. The Committee received a report from the Law Society's General Counsel on matters brought to the attention of the Law Society's whistleblowing intermediary.