

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**

**REGINA, SASKATCHEWAN**

**FINANCIAL STATEMENTS  
JUNE 30, 2017**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of **Saskatchewan Lawyers' Insurance Association Inc.** have been prepared by the Association's management in accordance with Canadian accounting standards for not-for-profit organizations and necessarily include some amounts based on informed judgement and management estimates.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that the financial statements are accurate and reliable and that assets are safeguarded.

The Directors have reviewed and approved these financial statements.

These financial statements have been examined by the independent auditors, **Virtus Group LLP**, and their report is presented separately.



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**Brad Hunter, QC**  
**Legal Counsel**



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**David McCashin**  
**Legal Counsel**



## INDEPENDENT AUDITORS' REPORT

To the Members

**Saskatchewan Lawyers' Insurance Association Inc.**

We have audited the accompanying financial statements of **Saskatchewan Lawyers' Insurance Association Inc.** which comprise the statement of financial position as at **June 30, 2017** and the statements of operations and members' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *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.

### *Auditors' 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 of 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 assessments, the auditor considers internal control relevant to the Association'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 Association'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 is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at **June 30, 2017** 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.

**September 13, 2017**

**Regina, Saskatchewan**

*Virtus Group LLP*  
**Chartered Professional Accountants**

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2017**  
**(with comparative figures for 2016)**

ASSETS	<u>2017</u>	<u>2016</u>
Cash and short term investments (Note 3)	\$ 2,485,812	\$ 3,124,175
Property held for sale (Note 4)	69,500	69,500
Investments (Note 5)	18,437,098	17,617,659
Accounts receivable	710,884	537,531
Accrued interest receivable	235,614	230,332
Due from The Law Society of Saskatchewan	626,633	868,305
Due from Canadian Lawyers' Insurance Association (Note 6)	378,953	3,390
	<u>\$ 22,944,494.</u>	<u>\$ 22,450,892</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 46,992	\$ 116,592
Government remittances payable	64,768	69,518
Annual premiums received in advance	1,838,720	1,998,720
Provision for unpaid claims and expenses (Note 7)	5,114,182	6,332,276
	<u>7,064,662</u>	<u>8,517,106</u>
<b>NET ASSETS</b>		
Members' equity	<u>15,879,832</u>	<u>13,933,786</u>
	<u>\$ 22,944,494</u>	<u>\$ 22,450,892</u>
<b>Commitment</b> (Note 12)		

APPROVED BY THE DIRECTORS:

  
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**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**STATEMENT OF OPERATIONS AND MEMBERS' EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(with comparative figures for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Annual premiums	\$ 2,070,867	\$ 2,467,559
Current year premiums paid to CLIA	(267,981)	(911,717)
<b>Net premiums</b>	<u>1,802,886</u>	<u>1,555,842</u>
<b>Claims expense (Note 8)</b>		
Claims / indemnity	(145,331)	1,020,341
Counsel, legal, and adjuster fees	429,025	570,545
<b>Excess (deficiency) of premiums over claims expense</b>	<u>1,519,192</u>	<u>(35,044)</u>
<b>Administrative expenses</b>		
Actuarial study	19,655	20,956
Committee meetings	5,501	4,523
LCL and library grants	68,995	75,236
Management fees (Note 9)	136,925	128,457
Miscellaneous	743	727
Office and general	24,321	65,235
Practice advisor	35,803	64,416
Professional services	88,273	84,783
Rent	-	6,000
Wages and benefits	398,227	374,693
	<u>778,443</u>	<u>825,026</u>
<b>Excess (deficiency) of revenues over expenses from operations</b>	<u>740,749</u>	<u>(860,070)</u>
<b>Other income (expenses)</b>		
Gain on disposal of investments	132,646	140,478
Unrealized gain (loss) on investments	51,194	(1,102,966)
Investment income	1,021,457	1,430,891
	<u>1,205,297</u>	<u>468,403</u>
<b>Excess (deficiency) of revenues over expenses</b>	1,946,046	(391,667)
<b>Members' equity - beginning of year</b>	<u>13,933,786</u>	<u>14,325,453</u>
<b>Members' equity - end of year</b>	<u>\$ 15,879,832</u>	<u>\$ 13,933,786</u>

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(with comparative figures for the year ended June 30, 2016)**

	<u>2017</u>	<u>2016</u>
<b>Cash provided by (used in) operating activities:</b>		
Excess (deficiency) of revenues over expenses	\$ 1,946,046	\$ (391,667)
Items not involving cash:		
- Gain on disposal of investments	(132,646)	(140,478)
- (Decrease) increase in provision for unpaid claims and expenses	(1,218,094)	172,074
- Unrealized (gains) losses on investments	(51,194)	1,102,966
	<u>544,112</u>	<u>742,895</u>
Non-cash operating balances (Note 10)	(412,985)	(544,237)
	<u>131,127</u>	<u>198,658</u>
<b>Cash provided by (used in) investing activities:</b>		
Additions to investments	(3,062,290)	(2,027,412)
Proceeds on disposal of investments	2,426,691	1,046,024
	<u>(635,599)</u>	<u>(981,388)</u>
<b>Cash provided by (used in) financing activities:</b>		
(Increase) decrease in due from Canadian Lawyers' Insurance Association	(375,563)	373,628
Decrease (increase) in due from The Law Society of Saskatchewan	241,672	(550,995)
	<u>(133,891)</u>	<u>(177,367)</u>
<b>Decrease in cash</b>	(638,363)	(960,097)
<b>Cash position - beginning of year</b>	<u>3,124,175</u>	<u>4,084,272</u>
<b>Cash position - end of year</b>	<u>\$ 2,485,812</u>	<u>\$ 3,124,175</u>

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(with comparative figures for the year ended June 30, 2016)**

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**1. Nature of operations**

The Saskatchewan Lawyers' Insurance Association Inc. ("SLIA") is incorporated under *The Non-profit Corporations Act* of Saskatchewan. Its primary purpose is to provide professional liability insurance to the members of the Law Society of Saskatchewan. SLIA has been a member of the Canadian Lawyers' Insurance Association ("CLIA"), a reciprocal insurance exchange, since policy year 1988/89. Claims paid by SLIA are subject to a series of limits which are described below. Of these amounts \$5,000 to \$10,000 is recoverable from the insured member in the form of a deductible.

***SLIA's retention per claim:***

The maximum amount paid by SLIA is \$300,000 per claim for 2005-2017, \$200,000 per claim for 2000-2004 and \$100,000 per claim prior for 1999 and prior years.

***Insurer's retention per claim:***

Claims paid in excess of \$300,000 (1999 and prior - \$100,000) are covered by insurance to a maximum of \$1,000,000.

***Annual aggregate limit:***

Beginning in policy year 1997/98 an aggregate limit was introduced providing an annual cap on claims per insured of \$2,000,000.

***SLIA's retention per policy year:***

Commencing with policy year 1988/89, pursuant to a stop loss and management agreement, SLIA's aggregate payments shall not exceed 135% of expected losses during the year concerned, calculated exclusive of individual insured's deductibles, adjuster fees and Counsel fees. The stop loss amount for each year concerned is as follows:

<i>Year of Claim</i>	<i>Amount</i>	<i>Year of Claim</i>	<i>Amount</i>
2016/17	\$2,435,000	2001/02	\$2,050,000
2015/16	2,825,000	2000/01	2,150,000
2014/15	2,600,000	1999/00	2,250,000
2013/14	2,825,000	1998/99	1,900,000
2012/13	2,325,000	1997/98	1,800,000
2011/12	2,300,000	1996/97	1,650,000
2010/11	2,100,000	1995/96	1,550,000
2009/10	1,900,000	1994/95	1,600,000
2008/09	1,800,000	1993/94	1,400,000
2007/08	1,800,000	1992/93	1,300,000
2006/07	1,900,000	1991/92	1,150,000
2005/06	2,000,000	1990/91	1,200,000
2004/05	1,950,000	1989/90	900,000
2003/04	1,850,000	1988/89	900,000
2002/03	1,950,000		

Firms of the Law Society of Saskatchewan members may elect to purchase excess insurance coverage from CLIA. Premiums for this excess coverage are not reflected in these accounts.

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**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(with comparative figures for the year ended June 30, 2016)**

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**2. Summary of significant accounting policies**

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations which required management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The financial statements reflect the following policies:

**Financial instruments**

Financial assets and financial liabilities are recorded on the statement of financial position when the Association becomes party to the contractual provisions of the financial instrument. The Association initially measures its financial assets and financial liabilities at fair value, except for certain related party transactions that are measured at the carrying amount or exchange amount, as appropriate.

The Association subsequently measures all its financial assets and financial liabilities at cost or amortized cost, except for investments which are measured at fair value. Changes in fair value of these financial instruments are recognized in net income. Fair value is the amount at which a financial instrument could be exchanged at arm's length between willing, unrelated parties in an open market.

**Revenue recognition**

Annual premiums received in advance are deferred and recognized as revenue over the applicable membership period.

**Income taxes**

SLIA is exempt from income taxes under Section 149(1)(l) of *The Income Tax Act*.

**Cash and short term investments**

The Association includes in cash and short term investments only highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in values.

**Provision for unpaid claims and expenses**

Provision for unpaid claims and expenses represents the estimated amount to settle all claims and expenses for counsel, administration, legal and adjusters' fees for claims reported to SLIA up to the end of the fiscal year.

The process of determining the provisions involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

These provisions are continually reviewed with all changes in estimated claim amounts being recorded as claims expense in the period in which the change in estimate is determined.

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(with comparative figures for the year ended June 30, 2016)

**2. Summary of significant accounting policies (continued)**

**CLIA retroassessments**

The insuring agreements between SLIA and CLIA allow for assigning certain retroassessments credits or levies each policy year. These retroassessments are accrued in full in the policy year in which they are declared by CLIA.

**3. Cash and short term investments**

	<u>2017</u>	<u>2016</u>
Cash	\$ 983,634	\$ 1,399,321
Money market funds	1,502,178	1,724,854
	<u>\$ 2,485,812</u>	<u>\$ 3,124,175</u>

Short term investments represent term deposits with TD Canada Trust. Money market funds represent funds managed by Greystone Managed Investments Inc. and TD Asset Management.

**4. Property held for sale**

	<u>2017</u>	<u>2016</u>
Real estate acquired in indemnity settlements	\$ 69,500	\$ 69,500
	<u>\$ 69,500</u>	<u>\$ 69,500</u>

**5. Investments**

	<u>2017</u>	<u>2016</u>
Canadian equities	\$ 2,062,279	\$ 2,126,590
U.S. equities	2,011,721	1,949,796
Non-North American equities	2,117,289	2,062,036
Fixed income	12,245,809	11,479,237
	<u>\$ 18,437,098</u>	<u>\$ 17,617,659</u>

Canadian equities consist of units in a Canadian Equity Pooled Fund. U.S. equities consist of units in a U.S. Equity Pooled Fund. Non-North American equities consist of units in an International Equity Fund. The Association's fixed income investments consist of units in a pooled investment fund including a commercial mortgage fund. All of these pooled funds are managed by Greystone Managed Investments Inc.

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(with comparative figures for the year ended June 30, 2016)**

**6. Due to (from) Canadian Lawyers' Insurance Association**

The year end balance due to (from) the CLIA is comprised of the following:

	<u>2017</u>	<u>2016</u>
Excess insurance	\$ (3,390)	\$ (3,390)
CLIA premium credit (Note 11)	(375,563)	-
	<u>\$ (378,953)</u>	<u>\$ (3,390)</u>

**7. Provision for unpaid claims and expenses**

As disclosed in Note 2, SLIA provides for unpaid claims and expenses based on claims reported to year end. File by file claims reserves based on current information on open and reported claims as of June 30, 2017 totaled \$5,114,182 (2016 - \$6,332,276).

SLIA engages an actuary to perform an annual actuarial valuation of its liabilities as of December 31 in order to provide recommendations with respect to the members' levy requirement for the subsequent policy year (commencing July 1). On the basis of historical claims development at SLIA, the actuarial valuation provides for future expected claims development that is not currently reflected in the existing case reserves of SLIA. As a result, the actuarial valuation will generally result in an estimate that is higher than the actual SLIA reserves. The valuation also takes into account past claims development experience and other actuarial considerations. The actuarial reserve required to settle all claims reported to December 31, 2016 was projected at \$7,684,000 on an undiscounted basis (\$7,484,000 discounted at 2.75%).

**8. Claims expenses**

Claims expenses consists of adjusters' fees, settlement costs and counsel and legal fees incurred in the year as well as the net change in the provision for unpaid claims and expenses.

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(with comparative figures for the year ended June 30, 2016)

**9. Related party transactions**

The Law Society of Saskatchewan (the "Society") is the sole member of SLIA and provides management services to SLIA for which it charged a fee of \$136,925 for the year (2016 - \$128,457). As at June 30, 2017 there was an amount owing from the Society of \$626,633 (2016 - \$868,305). These transactions are in the normal course of business and recorded at their exchange amounts which are based on amounts agreed upon between the related parties.

**10. Non-cash operating working capital**

Details of net change in each element of working capital relating to operations excluding cash are as follows:

	<u>2017</u>	<u>2016</u>
<b>(Increase) decrease in current assets:</b>		
Accounts receivable	\$ (173,353)	\$ (128,994)
Accrued interest receivable	(5,282)	(12,164)
Prepaid expenses	-	15,486
	<u>(178,635)</u>	<u>(125,672)</u>
<b>Increase (decrease) in current liabilities:</b>		
Accounts payable and accrued liabilities	(69,600)	(31,272)
Government remittances payable	(4,750)	(17,153)
Deferred revenue	(160,000)	(370,140)
	<u>(234,350)</u>	<u>(418,565)</u>
	<u>\$ (412,985)</u>	<u>\$ (544,237)</u>

**11. Equity in Canadian Lawyers' Insurance Association (unaudited) and other contingencies**

**CLIA**

SLIA is a subscribing member of CLIA, a reciprocal insurance exchange through which the law societies of seven provinces and the three territories (or their associated liability insurance entities) enter into agreements of mutual indemnification. Separate reserves are maintained by CLIA with respect to risks assumed and SLIA has an interest in surpluses in these reserves. CLIA prepares annual Subscriber Accounts, as of the end of CLIA's fiscal year (December 31) which are approved by the CLIA Advisory Board. These accounts include a reserve for claims liabilities on a discounted basis. On that basis, the Subscriber Accounts of CLIA as of December 31, 2016 show SLIA's subscriber's equity to be \$2,795,346 (unaudited).

In 2002, a management policy was developed by CLIA requiring subscribing members to maintain a surplus in their subscriber account balances for all their claims liability. If the surplus falls below the minimum, a retro call will be established. If the surplus exceeds 25%, the member may withdraw the surplus. At December 31, 2016, SLIA had a subscriber account surplus in the amount of \$880,260 (2016 - \$nil).

In accordance with the foregoing policy, SLIA did fully meet its calculated required subscriber equity balance of \$1,915,085.

**SASKATCHEWAN LAWYERS' INSURANCE ASSOCIATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(with comparative figures for the year ended June 30, 2016)**

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**11. Equity in Canadian Lawyers' Insurance Association (unaudited) and other contingencies continued**

**Other contingencies**

In addition to the foregoing, SLIA has obtained assignments of assets and taken various forms of security in conjunction with settlement of claims in the ordinary course of business. Realization on these instruments is contingent on conditions that are beyond the control of SLIA. Accordingly, the potential value of these instruments is currently not determinable and they have not been reflected in these financial statements.

**12. Commitment**

There is a taxable assement on the real estate acquired in indemnity settlements requiring annual payments of \$7,934 over the next eight years.

**13. Financial risk management**

The Association's financial assets and liabilities consist of cash and short-term investments, accounts receivable, accrued interest receivable, investments, property held for sale and accounts payable. The fair value of cash and short-term investments, accounts receivable, accrued interest receivable, investments and accounts payable approximate their carrying value due to the short term nature of these items.

The Association has a risk management framework to monitor, evaluate and manage the principal risks assumed with financial instruments. The financial risks to which the Association is exposed are:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Association is not exposed to significant credit risk.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Association is not exposed to significant interest rate risk.

**Price risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Association's investments expose the Association to market price risk.

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