

Legal Services Society Financial Statements 2007/2008

Legal Services Society **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of the society's financial statements. This responsibility includes maintaining the integrity and objectivity of the society's financial records, and presenting the society's financial statements in accordance with Canadian generally accepted accounting principles.

Management maintains a system of internal controls that ensures that all material agreements and transactions of the society are properly recorded. The society's financial statements for the year ended March 31, 2008, have been examined by KPMG LLP. Their examination was made in accordance with Canadian generally

accepted accounting standards, and included obtaining a sufficient understanding of the society's internal controls to plan the audit.

The directors of the society's board are not employees of the society. The board of directors is responsible for determining that management fulfills its responsibilities in the preparation of the financial statements and the control of the society's financial operations. The board of directors meets with staff of KPMG LLP to discuss their audit work, the society's internal controls, and the financial statements. The board of directors is responsible for approving the financial statements.



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AUDITORS' REPORT

To the Board of Directors,
Legal Services Society, and,

To the Attorney General,
Province of British Columbia

We have audited the balance sheet of the Legal Services Society (the "Society") as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia) we report, that in our opinion, these principles have been applied, except for the change in method of accounting for financial instruments as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Chartered Accountants

Burnaby, Canada
May 9, 2008

Legal Services Society

Balance Sheet

For the year ended March 31, 2008

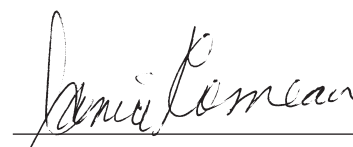
	2008	2007
Assets		
Current assets		
Cash	\$ 908,092	\$ 1,347,290
Short-term investments (note 4)	14,065,659	18,451,734
Accounts receivable		
Government of British Columbia	3,369,005	4,917,936
Government of Canada	826,722	610,284
Other	2,958,090	1,316,977
Prepaid expenses	692,868	600,617
Total current assets	22,820,436	27,244,838
Long-term investments (note 4)	8,045,665	4,035,599
Capital assets (note 5)	2,379,693	2,392,998
Total assets	\$ 33,245,794	\$ 33,673,435
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
General	\$ 3,626,340	\$ 2,094,531
Tariff (note 6)	13,977,564	13,480,932
Deferred contributions (note 7a)	1,469,700	2,507,453
Total current liabilities	19,073,604	18,082,916
Deferred capital contribution (note 7b)	509,070	–
Long-term liabilities (note 9)	553,272	584,675
Surplus in net assets		
Invested in capital assets (note 10)	1,576,623	2,109,998
Internally restricted (note 11)	11,216,788	11,286,684
Unrestricted	316,437	1,609,162
	13,109,848	15,005,844
Total liabilities and surplus	\$ 33,245,794	\$ 33,673,435
Commitments (note 12)		
Contingencies (note 15)		

The accompanying notes are an integral part of these financial statements.

Approved by:



Mayland McKimm, QC
Chair of the Board of Directors



Janice Comeau
Chair of the Finance Committee

Legal Services Society
Statement of Changes in Net Assets

For the year ended March 31, 2008

	Invested in capital assets (note 10)	Unrestricted	Internally restricted (note 11)	Total 2008	Total 2007
Balance, beginning of year	\$ 2,109,998	\$ 1,609,162	\$ 11,286,684	\$ 15,005,844	\$ 12,860,549
Excess (deficiency) of revenue over expenses for the year	(984,548)	(829,839)	(69,896)	(1,884,283)	2,145,295
Investment in capital assets	451,173	(451,173)	–	–	–
Change in fair value of investment classified as “available-for-sale”	–	(11,713)	–	(11,713)	–
Balance, end of year	\$ 1,576,623	\$ 316,437	\$ 11,216,788	\$ 13,109,848	\$ 15,005,844

The accompanying notes are an integral part of these financial statements.

Legal Services Society

Statement of Operations

For the year ended March 31, 2008

	2008	2007
Revenue		
Grants		
Government of British Columbia	\$ 67,019,770	\$ 62,696,406
Federal Investment Grant	–	2,966,633
Law Foundation	3,558,397	4,213,159
Notary Foundation	3,768,367	2,660,584
	<u>74,346,534</u>	<u>72,536,782</u>
Other income		
Interest	1,423,537	1,369,047
Miscellaneous	467,636	456,291
	<u>1,891,173</u>	<u>1,825,338</u>
Total income	<u>\$ 76,237,707</u>	<u>\$ 74,362,120</u>
Expenses		
Amortization	984,548	1,043,581
Local agents	852,639	704,608
Board expenses	187,736	210,509
Computers	1,423,099	1,127,810
Duty counsel	7,365,226	7,403,633
Grants and contracted services	6,096,295	3,657,318
Libraries	128,956	113,393
Miscellaneous	396,115	467,287
Office	930,879	961,644
Premises	1,766,522	1,651,227
Salaries and benefits	14,340,516	13,130,376
Tariffs	42,756,772	40,834,451
Transcripts	678,139	744,923
Travel	214,548	166,065
	<u>78,121,990</u>	<u>72,216,825</u>
Total expenses	<u>\$ 78,121,990</u>	<u>\$ 72,216,825</u>
Excess (deficiency) of revenue over expenses	<u>\$ (1,884,283)</u>	<u>\$ 2,145,295</u>

The accompanying notes are an integral part of these financial statements.

Legal Services Society

Statement of Cash Flows

For the year ended March 31, 2008

	2008	2007
Cash flows provided by (used in):		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ (1,884,283)	\$ 2,145,295
Items not involving the outlay of cash		
Amortization	984,548	1,043,581
Lease inducement adjustment in asset retirement obligation	19,000	18,000
	<u>\$ (880,735)</u>	<u>\$ 3,206,876</u>
Changes in non-cash operating items		
Accounts receivable	(308,620)	(2,694,582)
Prepaid expenses	(92,251)	(49,092)
Accounts payable and accrued liabilities	2,028,441	1,363,772
Deferred contributions	(1,037,753)	(106,870)
	<u>\$ (290,918)</u>	<u>\$ 1,720,104</u>
Financing activities		
Deferred capital contributions	509,070	–
Long-term liabilities	(31,403)	2,595
Investment activities		
Capital asset additions	(990,243)	(661,694)
Short-term investments	4,386,075	3,095,187
Long-term investments	(4,021,779)	(4,020,831)
	<u>\$ (625,947)</u>	<u>\$ (1,587,338)</u>
Net increase (decrease) in cash position	(439,198)	135,361
Cash, beginning of year	1,347,290	1,211,929
Cash, end of year	<u>\$ 908,092</u>	<u>\$ 1,347,290</u>
Supplemental cash flow information		
Non-cash transaction		
Change in capital asset and related asset retirement obligation	<u>\$ 8,000</u>	<u>\$ (32,000)</u>

The accompanying notes are an integral part of these financial statements.

Legal Services Society

Notes to the Financial Statements

For the year ended March 31, 2008

1. Overview

The Legal Services Society (the society) was established under the Legal Services Society Act on October 1, 1979, and was revised on May 31, 2007. The society is governed by a board of directors, of which 5 are appointed by the province of British Columbia (the province) and 4 are appointed by the Law Society. The purpose of the society is to:

- assist individuals to resolve their legal problems and facilitate access to justice,
- establish and administer an effective and efficient system for providing legal aid to individuals in British Columbia, and
- provide advice to the Attorney General respecting legal aid and access to justice for individuals in British Columbia.

The society is not subject to income taxes.

2. Change in Accounting Policy

Effective April 1, 2007, the society adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook: Section 3855, Financial Instruments — Recognition and Measurement; Section 3861, Financial Instruments — Disclosure and Presentation; and Section 3865, Hedges. These new handbook sections provide comprehensive requirements for the recognition and measurement of financial instruments and related disclosures.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are initially measured at fair market value. Subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in the statement of operations in the period they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in the net asset balance until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments, and other financial liabilities are measured at amortized cost.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized as earnings unless specific hedge criteria are met, which require that the society must formally document, designate, and assess the effectiveness of transactions to which hedge accounting is applied.

As a result of the adoption of these standards, the society has classified cash as available for sale. Accounts receivable are classified as loans and receivables. Short-term investments and long-term investments have been classified as either held-to-maturity or available-for-sale.

Accounts payable, accrued liabilities, and long-term liabilities are classified as other financial liabilities. The society has not identified any embedded derivatives that are not closely related to the host contract and currently the society does not have any financial instruments that would qualify for hedge accounting.

As permitted, these standards have been applied prospectively with no impact to net assets at April 1, 2007.

3. Significant Accounting Policies

(a) Basis of accounting

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

(b) Short-term and long-term investments

Investments include banker's acceptance, provincial and federal government bonds, and bank bonds. The investments have been classified as follows:

- **Held-to-maturity:**
Investments that have fixed or determinable payments and a fixed maturity date, which the society intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method.
- **Available-for-sale:**
Investments classified as available-for-sale are carried at fair value with the changes in fair value recorded in unrestricted surplus in net assets.

(c) Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis as follows:

	Per year
Furniture	20%
Equipment	20%
Computer equipment	33%
Computer software	33%
Case Management System	10%
Leasehold improvements	lower of lease term and useful life

(d) Deferred lease inducements

Tenant inducements received for leased premises are deferred and amortized on a straight-line basis over the term of the lease.

(e) Asset retirement obligation

The society recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The society concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset.

The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in the Statement of Operations as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is depreciated over the remaining life of the asset.

(f) Pension plan

The society participates in a multi-employer contributory pension plan. The cost of the defined contributions is recognized based on the contributions required to be made during each period.

(g) Revenue recognition

The society follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable, if the amount can be reasonably estimated and collection is reasonably assured. Restricted contributions for expenses that will be incurred in future periods are deferred and recognized in the period in which the related expenses are incurred.

(h) Donated services

Donated services are recorded at fair value when they would normally be purchased by the society and when fair value can be estimated for the services. If fair value cannot be reasonably estimated, the services are not recorded.

(i) Tariff expenses

Tariff expenses include amounts billed by the lawyers to the society and an estimate of amounts of services performed by lawyers but not yet billed to the society.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Areas where estimates are significant to the financial statements include the collectibility of accounts receivable, amortization of capital assets, asset retirement obligations, tariff expenses, and contingent liabilities. Actual results could differ from those estimates.

(k) Future changes in accounting policies

Commencing with the fiscal year beginning April 1, 2008, the society will be adopting CICA Handbook section 3862, Financial Instruments — Disclosures and section 3863, Financial Instruments — Presentation. These standards revise the current standards on financial instruments disclosure and presentation and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Management is currently determining the impact of the adoption of these standards on the financial statements for the 2009 fiscal year.

4. Investments

The combined carrying value of the society's short- and long-term investments is \$22,111,324 (2007 — \$22,487,333). Included in Investments is \$500,848 for accrued interest (2007 — \$159,022). The investments have a market value at March 31, 2008, of \$22,237,514 (2007 — \$22,466,537).

	March 31, 2008		March 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity	\$ 19,630,494	\$ 19,756,684	\$ 22,487,333	\$ 22,466,537
Available-for-sale	2,480,830	2,480,830	—	—
Total	\$ 22,111,324	\$ 22,237,514	\$ 22,487,333	\$ 22,466,537

5. Capital Assets

	Cost	Accumulated amortization	Net book value	
			2008	2007
Furniture	\$ 961,999	\$ (545,889)	\$ 416,110	\$ 351,353
Equipment	1,291,380	(915,186)	376,194	237,699
Computer equipment	2,276,566	(2,202,722)	73,844	165,700
Computer software	1,121,608	(970,315)	151,293	44,425
Case Management System	1,126,527	(1,090,756)	35,771	92,031
Leasehold improvements	3,289,663	(1,963,182)	1,326,481	1,501,790
	\$ 10,067,743	\$ (7,688,050)	\$ 2,379,693	\$ 2,392,998

6. Accounts Payable and Accrued Liabilities — Tariff

	2008	2007
Balance, beginning of year	\$ 13,480,932	\$ 11,613,324
Duty counsel	7,365,226	7,399,174
Tariffs	42,756,772	40,757,350
Less tariff payments made during the year	(49,625,366)	(46,288,916)
Balance, end of year	\$ 13,977,564	\$ 13,480,932

The society uses an actuarial model to estimate legal services performed but not yet billed to the society. Management estimated the liability to be approximately \$11,870,000 (2007 — \$11,340,000). This estimate included in the above table incorporates average case costs and service billings for similar cases, based on historical experience over a two-year period. Actual costs could differ from this estimate.

7. Deferred Contributions

(a) Contributions that are restricted to funding specific expenses are deferred and amortized to operations as the related expenses are incurred.

	Balance, beginning of the year	Restricted contributions	Criminal tariff surplus	Amortized to operations	Balance, end of the year
Law Foundation	\$ –	\$ 161,200	\$ –	\$ 100,838	\$ 60,362
Ministry of Children and Family Development	536,684	–	–	118,204	418,480
Government of British Columbia (exceptional matters*)	1,970,769	2,700,000	850,363	4,530,274	990,858
Total	\$ 2,507,453	\$ 2,861,200	\$ 850,363	\$ 4,749,316	\$ 1,469,700

* The society's Memorandum of Understanding with the Attorney General of British Columbia provides for restricted funding for exceptional matters commencing with the 2003 fiscal year. In the case of an annual shortfall, the society must first apply the shortfall to any surplus in the criminal tariff. Any remaining shortfall is then applied to the dererred contribution. Exceptional matters are cases that meet one or more of the following criteria:

- A court has ordered that counsel be provided.
- The complexity of the legal matter requires payment of fees in excess of the standard rate.
- Legal fees or disbursements exceed \$50,000.
- Several individuals are involved in a similar or related legal proceeding.

(b) Deferred capital contributions represent the unamortized amount of externally restricted grants and other funding received for the purchase of capital assets. Amortization of capital contributions is recorded as revenue in the statement of operations.

	2008	2007
Balance, beginning of year	\$ –	\$ –
Contributions received	554,588	–
Amortization of deferred capital contributions	(45,518)	–
Balance, end of year	\$ 509,070	\$ –

8. Pension Plan

The society and its employees contribute to the Municipal Pension Plan (the plan), a jointly trustee pension plan. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 145,000 active members and approximately 51,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent valuation as at December 31, 2006, indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009, with results available for 2010. The actuary does not attribute portions of the surplus to individual employers. The society paid \$775,113 for employer contributions to the plan in fiscal 2008 (2007 — \$767,622).

9. Long-Term Liabilities

	2008	2007
Asset retirement obligations (a)	\$ 369,000	\$ 366,000
Lease inducements	184,272	218,676
	\$ 553,272	\$ 584,675

(a) Asset retirement obligation

Included within long-term liabilities is the society's accrual for its asset retirement obligation for the estimated costs of restoring certain leased facilities to their original condition at the end of the lease terms. The following is a reconciliation of the changes in the asset retirement obligation during the year:

	2008	2007
Balance, beginning of year	\$ 374,000	\$ 324,000
Liabilities incurred during the year	–	32,000
Accretion expense	19,000	18,000
Less liabilities settled	(8,000)	–
Balance, end of the year	385,000	374,000
Less current portion	(16,000)	(8,000)
Long-term portion	\$ 369,000	\$ 366,000

The accretion expense is included in the premises expense. The undiscounted estimated cash flows required to settle the obligation range from \$22,000 to \$280,000 during the years 2008 to 2014. The cash flows are discounted using a credit-adjusted risk-free rate of 5.0% (2007 — 5.0%).

10. Invested in Capital Assets

	2008	2007
(a) Net assets invested in capital assets are calculated as follows:		
Capital assets	\$ 2,379,693	\$ 2,392,998
Amounts financed by: Asset retirement obligation, net of accretion expense	(294,000)	(283,000)
Deferred capital contribution	(509,070)	–
Balance, end of the year	\$ 1,576,623	\$ 2,109,998
(b) Excess of revenue over expenses:		
Amortization of capital assets	\$ (984,548)	\$ (1,043,581)
(c) Net change in investment in capital assets:		
Net increase in capital assets	\$ 963,243	\$ 643,694
Change in asset retirement obligation	(3,000)	(32,000)
Deferred capital contribution	(509,070)	–
Change in capital assets	\$ 451,173	\$ 611,694

11. Internally Restricted Net Assets

	Child protection	Board-directed strategic initiatives	Total
Opening balance	\$ 286,684	\$ 11,000,000	\$ 11,286,684
Less: expenditures	(69,896)	–	(69,896)
	\$ 216,788	\$ 11,000,000	\$ 11,216,788

The board of directors has authorized the following restriction of the surplus in net assets:

- On March 31, 2003, the restriction of \$600,000 for a child protection pilot project
- On December 15, 2006, the restriction of \$11.0 million for board-directed strategic initiatives

These internally restricted amounts are not available for other purposes without approval by the board of directors.

12. Commitments

The society has the following commitments for long-term leases of its office premises and operating leases:

2009	\$ 731,854
2010	704,363
2011	719,175
2012	719,175
2013	719,175
Thereafter	1,024,887

At fiscal year-end, the liability for future costs of legal services to be performed beyond the fiscal year, for which the society is currently committed, is estimated by management to be approximately \$19 million. This estimate uses the same methodology as described in note 6 for tariff payables.

13. Related Parties

The society is related to the province and its ministries, agencies, and Crown corporations. In this relationship, the province provided funding in the amount of \$67,019,770 (2007 — \$62,696,406) and the society is responsible for providing legal aid to individuals throughout BC. At year-end, the province owed the society \$3,369,005 (2007 — \$4,917,936).

Certain members of the board of directors provide tariff services to the society. These services are provided in the regular course of business under the same terms

and conditions as other lawyers. The total amount paid during the year was \$325,405 (2007 — \$76,623). All payments to board members are reviewed by the finance committee on a quarterly basis.

The Law Foundation of BC (the foundation) and the society established a legal aid research fund during the year. The purpose of the fund is to support research on and evaluation of legal aid and other access to justice programs to enhance the quality of and access to justice for British Columbians. Both the foundation and the society contributed \$1.0 million and the fund will be held and administered by the foundation. The expenditure has been included in grants and contracted services expenses.

14. Economic Dependence

In 2008, the society received 88% (2007 — 84%) of its operating revenue from the province, 5% (2007 — 6%) from the Law Foundation of British Columbia, and 5% (2007 — 4%) from the Notary Foundation of BC. The society depends on funding from these sources for the continuance of its operations.

15. Contingencies

The nature of the society's activities are such that there is usually pending or prospective litigation at any time against the society. With respect to claims at March 31, 2008, management believes the society has valid defenses and appropriate insurance coverage in place. In the event that any of these claims are successful, management believes they will not have a material effect on the society's financial position.

16. Comparative Figures

Certain comparative figures have been changed to conform to the current year's presentation.