

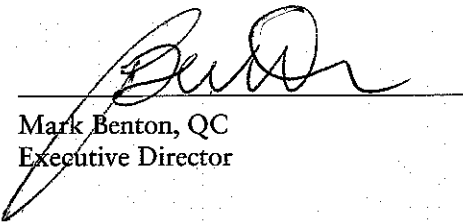
Legal Services Society *Financial Statements 2010/2011*

Legal Services Society Management's Responsibility for the Financial Statements

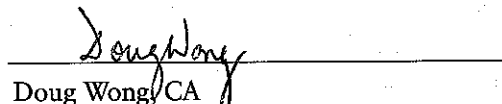
Management is responsible for the preparation of the society's financial statements. This responsibility includes maintaining the integrity and objectivity of the society's financial records, and presenting the society's financial statements in accordance with Canadian generally accepted accounting principles.

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, 2011, have been examined by PricewaterhouseCooper LLP. Their examination was made in accordance with Canadian generally accepted auditing 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 PricewaterhouseCooper 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.



Mark Benton, QC
Executive Director



Doug Wong, CA
Director, Finance and Corporate Services

May 19, 2011

Independent Auditor's Report

To the Board Directors of
Legal Services Society, and
to the Attorney General, Province of British Columbia

We have audited the accompanying financial statements of the Legal Services Society, which comprise the balance sheet as at March 31, 2011 and the statements of operations, changes in net assets and cash flows for the year 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 generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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, the financial statements present fairly, in all material respects, the financial position of the Legal Services Society as at March 31, 2011 and its results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matters

The financial statements of the Legal Services Society, as at and for the year ended March 31, 2010, were audited by another auditor who expressed an unmodified opinion on those financial statements on May 5, 2010.

PricewaterhouseCoopers LLP

Chartered Accountants

Legal Services Society Balance Sheet

As at March 31, 2011 with comparative figures for 2010

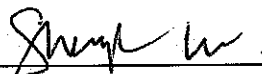
	2011	2010
Assets		
Current assets		
Cash	\$ 1,984,060	\$ 1,622,646
Short-term investments (note 4)	10,121,958	11,319,580
Accounts receivable		
Government of British Columbia (note 14)	3,347,206	1,391,797
Government of Canada	2,932,762	2,047,456
Other	501,678	608,943
Prepaid expenses	337,694	219,471
Total current assets	19,225,358	17,209,893
Long-term investments (note 4)	4,400,578	3,970,970
Capital assets (note 5)	2,951,489	3,567,286
Total assets	\$ 26,577,425	\$ 24,748,149
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
General	\$ 1,290,405	\$ 2,777,515
Tariff (note 6)	16,121,102	13,004,778
Deferred contributions (note 7a)	1,487,074	1,370,892
Total current liabilities	18,898,581	17,153,185
Deferred capital contributions (note 7b)	341,255	464,737
Long-term liabilities (note 9)	535,588	375,004
Total liabilities	19,775,424	17,992,926
Surplus in net assets		
Invested in capital assets (note 11)	2,209,234	2,865,549
Internally restricted (note 12)	3,675,819	3,675,819
Unrestricted	916,948	213,855
	6,802,001	6,755,223
Total liabilities and surplus	\$ 26,577,425	\$ 24,748,149

Commitments (note 13)

Contingencies (note 16) *

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


E. David Crossin, QC
Chair of the Board of Directors


Sheryl N. Lee, CA
Chair of the Finance Committee

Legal Services Society Statement of Changes in Net Assets

For the year ended March 31, 2011

	Invested in capital assets (note 11)	Unrestricted	Internally restricted (note 12)	Total	
				2011	2010
Balance, beginning of year	\$ 2,865,549	\$ 213,855	\$ 3,675,819	\$ 6,755,223	\$ 9,916,775
Excess/(Deficiency) of revenue over expenses for the year	(661,315)	687,945	-	26,630	(3,034,160)
Invested in capital assets	5,000	(5,000)	-	-	-
Change in market value of investment classified as "available-for-sale"	-	20,148	-	20,148	(127,392)
Balance, end of year	\$ 2,209,234	\$ 916,948	\$ 3,675,819	\$ 6,802,001	\$ 6,755,223

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

Legal Services Society Statement of Operations

For the year ended March 31, 2011 with comparative figures for 2010

	2011	2010
Revenue		
Grants		
Government of British Columbia (note 14)	\$ 71,536,645	\$ 69,546,926
Law Foundation	3,735,309	4,958,386
Notary Foundation	469,618	347,171
	<u>75,741,572</u>	<u>74,852,483</u>
Other Income		
Interest	537,271	664,775
Miscellaneous	604,693	760,811
	<u>1,141,964</u>	<u>1,425,586</u>
Total Income	<u>\$ 76,883,536</u>	<u>\$ 76,278,069</u>
Expenses		
Tariffs (note 6)	45,674,581	42,596,476
Salaries and benefits	10,356,539	15,654,992
Duty counsel (note 6)	9,609,130	8,628,350
Grants and contracted services	3,877,128	3,783,417
Local agents	1,658,880	1,132,535
Premises	1,484,238	2,135,229
Computers	1,232,173	1,289,030
Transcripts	847,586	823,993
Amortization	784,797	1,463,393
Office	698,133	594,602
Miscellaneous	297,431	726,638
Board expenses	151,929	158,280
Travel	99,454	196,437
Libraries	84,907	128,857
	<u>76,856,906</u>	<u>79,312,229</u>
Total Expenses	<u>\$ 76,856,906</u>	<u>\$ 79,312,229</u>
Excess/(Deficiency) of revenue over expenses	<u>\$ 26,630</u>	<u>\$ (3,034,160)</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, 2011 with comparative figures for 2010

	2011	2010
Cash flows from (to):		
Operating activities		
Excess/(Deficiency) of revenue over expenses for the year	\$ 26,630	\$ (3,034,160)
Items not involving the outlay of cash		
Amortization	784,797	1,463,393
Accretion expense	16,000	15,000
Leasehold inducements	(19,416)	(108,648)
Amortization of deferred capital contributions	(123,482)	(123,481)
	<u>\$ 684,529</u>	<u>\$ (1,787,896)</u>
Changes in non-cash operating items		
Accounts receivable	(2,733,450)	1,352,288
Prepaid expenses	(118,223)	423,454
Accounts payable and accrued liabilities	1,629,214	(1,884,359)
Deferred contributions	116,182	353,769
	<u>\$ (421,748)</u>	<u>\$ (1,542,744)</u>
Investment activities		
Short-term investments	1,197,622	(5,011,558)
Capital asset additions	(5,000)	(335,672)
Long-term investments	(409,460)	7,108,778
	<u>\$ 783,162</u>	<u>\$ 1,761,548</u>
Net increase in cash position	361,414	218,804
Cash, beginning of year	1,622,646	1,403,842
Cash, end of year	<u><u>\$ 1,984,060</u></u>	<u><u>1,622,646</u></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, 2011

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 five are appointed by the Province of British Columbia (the province) and four 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 Policies

Future changes in accounting policies:

The province has advised that effective April 1, 2011 the society will be required to implement its financial reporting in accordance with the Public Sector Accounting Board (PSAB) standards. The society is in the process of reviewing the potential impacts of the new standards on its reporting framework and financial statements.

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) Financial instruments

The society has elected to apply Canadian Institute of Chartered Accountants Handbook Section 3861 for reporting of financial instruments.

The society's cash, short-term investments, and long-term investments have been classified as available-for-sale and are carried at market value with the changes in market value recorded in unrestricted surplus in net assets.

Accounts receivable have been classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities have been classified as other financial liabilities and are measured at amortized cost.

(c) Capital assets

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

Per year	
Furniture	10-20%
Equipment	20%
Computer equipment	25-33%
Computer software	20-33%
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 effective 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.

(3. Significant Accounting Policies cont'd)

(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 valuation of accounts receivable, amortization of capital assets, asset retirement obligations, tariff liabilities, and contingent liabilities. Actual results could differ from those estimates.

4. Investments

The combined carrying value of the society's short- and long-term investments is \$14,522,536 (2010—\$15,290,550). Included in investments is \$218,966 for accrued interest (2010—\$183,291). Investments comprise Guaranteed Investment Certificates, Provincial Bonds, Federal Bonds, and Structured Bank Notes with maturities ranging from April 2011 to May 2013 and rates of return ranging from 1.48% to 2.40%.

5. Capital Assets

	Cost	Accumulated amortization	Net book value	
			2011	2010
Furniture	\$ 1,000,302	\$ (630,866)	\$ 369,436	\$ 446,677
Equipment	492,333	(397,566)	94,767	188,947
Computer equipment	704,816	(469,441)	235,375	408,511
Computer software	2,222,297	(1,499,934)	722,363	988,724
Case Management System	1,126,527	(1,126,527)	—	—
Leasehold improvements	2,582,461	(1,052,913)	1,529,548	1,534,427
Total	\$ 8,128,736	\$ (5,177,247)	\$ 2,951,489	\$ 3,567,286

6. Accounts Payable and Accrued Liabilities—Tariff

	2011	2010
Balance, beginning of the year	\$ 13,004,778	\$ 14,959,702
Duty counsel	9,609,130	8,628,350
Tariffs	45,674,581	42,596,476
Less: tariff payments made during the year	(52,167,387)	(53,179,750)
Balance, end of the year	\$ 16,121,102	\$ 13,004,778

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 \$11,840,000 (2010—\$11,162,000). 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 year	Restricted contributions	Amortized to operations	Balance, end of year
Law Foundation	\$ 24,552	\$ —	\$ 24,552	\$ 0
Ministry of Children and Family Development	58,340	—	—	58,340
Government of British Columbia - Criminal Cat. B	1,288,000	1,813,000	1,713,704	1,387,296
Government of British Columbia - Criminal Cat. C	—	1,128,267	1,086,829	41,438
Total	\$ 1,370,892	\$ 2,941,267	\$ 2,825,085	\$ 1,487,074

The society's Memorandum of Understanding (MOU) with the Attorney General of British Columbia provides for restricted funding for exceptional matters commencing with the 2003 fiscal year. Effective April 1, 2010, the MOU was revised to provide clarification on criminal case classification and funding of these cases. There are now three categories:

- Category A – the first \$75,000 of non-court-ordered cases paid at the standard rates. These cases are funded from the base criminal tariff budget.
- Category B – all costs greater than \$75,000 and up to \$175,000 of non-court-ordered cases paid at standard rates, and all costs of court-ordered cases up to \$175,000 paid at standard rates. These cases are funded by a restricted contribution and any surplus in these cases is transferred to deferred contributions. In the case of an annual shortfall in Criminal Category B cases, the society must first apply any eligible base criminal tariff surplus to the shortfall. Any remaining shortfall is then applied to deferred contributions.
- Category C – all costs greater than \$175,000 or all costs where the hourly rate paid is greater than the standard rate. These cases are funded through a special funding agreement with the Ministry of the Attorney General.

(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 included in Law Foundation revenue in the statement of operations.

	2011		2010	
Balance, beginning of year	\$	464,737	\$	588,218
Amortization of deferred capital contributions		(123,482)		(123,481)
Balance, end of year	\$	341,255	\$	464,737

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 plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The plan has about 163,000 active members and approximately 60,000 retired members. Active members include approximately 35,000 contributors from local governments.

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, 2009 indicated an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be as at December 31, 2012 with results available in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The society paid \$632,009 for employer contributions to the plan in fiscal 2011 (2010 — \$805,064).

9. Long-Term Liabilities

	2011		2010	
Asset retirement obligation (a)	\$	487,000	\$	307,000
Leasehold inducements		48,588		68,004
Total	\$	535,588	\$	375,004

(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:

	2011		2010	
Balance, beginning of year	\$	307,000	\$	400,000
Accretion expense		16,000		15,000
Less: liabilities settled		—		(108,000)
Increase in estimate		164,000		—
Balance, end of year		487,000		307,000
Long-term portion	\$	487,000	\$	307,000

The accretion expense is included in the premises expense. The undiscounted estimated cash flows required to settle the obligations ongoing to 2019 are \$784,000. The cash flows are discounted using a credit-adjusted, risk-free rate of 5% (2010—5%).

10. Capital

The society receives its principal source of capital through funding received from the Ministry of Attorney General. The society defines capital to be net assets and deferred capital contributions.

The society's objective when managing capital is to fund its operations and capital asset additions. The society manages the capital structure in conjunction with the Ministry of Attorney General and makes adjustments based on available government funding and economic conditions. Currently, the society's strategy is to monitor expenditures to reduce capital in accordance with budgets approved by the Ministry of Attorney General.

The society is not subject to debt covenants or any other capital requirements.

11. Invested in Capital Assets

	2011	2010
(a) Net assets invested in capital assets are calculated as follows:		
Capital assets	\$ 2,951,489	\$ 3,567,286
Amounts financed by: Asset retirement obligation, net of accretion expense	(401,000)	(237,000)
Deferred capital contribution	(341,255)	(464,737)
Balance, end of year	<u>\$ 2,209,234</u>	<u>\$ 2,865,549</u>
(b) Deficiency of revenue over expenses:		
Amortization of capital assets	\$ (784,797)	\$ (1,463,393)
Less amortization of deferred capital contribution	123,482	123,481
	<u>\$ (661,315)</u>	<u>(1,339,912)</u>
(c) Net change in invested in capital assets:		
Net increase in capital assets	\$ 169,000	\$ 227,672
Change in asset retirement obligation	(164,000)	57,000
Invested in capital assets	<u>\$ 5,000</u>	<u>\$ 284,672</u>

12. Internally Restricted Net Assets

	Board-directed strategic initiatives 2011	Board-directed strategic initiatives 2010
Opening balance	\$ 3,675,819	\$ 3,675,819
No transfers in 2010/2011	—	—
Total	<u>\$ 3,675,819</u>	<u>\$ 3,675,819</u>

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

- On December 15, 2006, the restriction of \$11 million for board-directed strategic initiatives.
- Since 2006, the board has approved the transfer of 7.3 million from restricted net assets to unrestricted net assets.
- There were no transfers approved during the fiscal year 2011 (2010 — \$2,200,000)
- These internally restricted amounts are not available for other purposes without approval by the board of directors.

13. Commitments

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

2012	\$ 704,404
2013	750,241
2014	774,791
2015	798,093
2016	827,221
Thereafter	3,459,474
Total	\$ 7,314,224

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 \$20 million. This estimate uses the same methodology as described in note 6 for tariff payables.

14. Related Parties

The society is related to the Province of British Columbia and its ministries, agencies, and Crown corporations. In this relationship, the province provided funding in the amount of \$71,536,645 (2010—\$69,546,926) and the society is responsible for providing legal aid to individuals throughout BC. At year-end, the province owed the society \$3,347,206 (2010—\$1,391,797).

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 for their services during the year was \$17,984 (2010—\$112,928). All payments to board members are reviewed by the finance committee on a quarterly basis.

15. Economic Dependence

In 2011, the society received 93% (2010—91%) of its operating revenue from the province, and 5% (2010—7%) from the Law Foundation of British Columbia. The society depends on funding from these sources for the continuance of its operations.

16. Contingencies

The nature of the society's activities is such that there is usually pending or prospective litigation at any time against the society. With respect to claims at March 31, 2011, 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.

17. Financial Instruments

Accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their immediate or short term to maturity. The society is not exposed to significant interest rate risk, credit risk, liquidity, or foreign exchange risk.

18. Comparative Figures

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