

Legal Services Society
Financial Statements 2005/2006

Legal Services Society Financial Statements 2005/2006

Legal Services Society Management's Responsibility for the Financial Statements

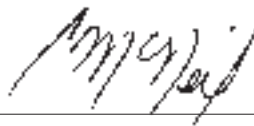
Management is responsible for the preparation of the Society's financial statements. This responsibility includes maintaining the integrity and objectivity of the Society's financial records, and presenting the Society's financial statements in accordance with Canadian generally accepted accounting principles.

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, 2006, 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.



Mark Benton
Executive Director



Catherine McNeil
Director, Finance and Corporate Services



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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, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Burnaby, Canada
May 15, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Legal Services Society Balance Sheet

As at March 31, 2006

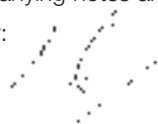
	2006	2005
Assets		
Current assets		
Cash	\$ 1,211,929	\$ 1,657,956
Short-term investments (note 3)	21,402,671	18,176,117
Accounts receivable		
Government of British Columbia	3,242,859	912,396
Government of Canada	399,739	407,711
Other	667,035	475,115
Prepaid expenses	551,525	264,766
Total current assets	27,475,758	21,894,061
Capital assets (note 4)	2,792,885	3,715,889
Total assets	\$ 30,268,643	\$ 25,609,950
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		
General	\$ 2,598,366	\$ 1,914,359
Tariff (note 5)	11,613,324	12,412,369
Deferred income (note 6)	2,614,323	2,278,009
Total current liabilities	16,826,013	16,604,737
Long-term liabilities (note 8)	582,081	619,587
Surplus in net assets		
Invested in capital assets (note 9)	2,541,885	3,509,889
Internally restricted (note 11)	600,000	600,000
Unrestricted	9,718,664	4,275,737
	12,860,549	8,385,626
Total liabilities and surplus	\$ 30,268,643	\$ 25,609,950

Commitments (note 10)

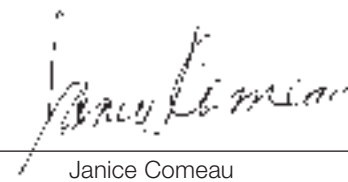
Contingencies (note 15)

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

Approved by:



Geoffrey Cowper, Q.C.
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, 2006

	Invested in capital assets (note 9)	Unrestricted	Internally restricted (note 11)	Total	
				2006	2005
Balance, beginning of year	\$ 3,509,889	\$ 4,275,737	\$ 600,000	\$ 8,385,626	\$ 4,332,135
Excess (deficiency) of revenue over expenses for the year	(1,124,997)	5,599,920	–	4,474,923	4,053,491
Investment in capital assets	156,993	(156,993)	–	–	–
Balance, end of year	\$ 2,541,885	\$ 9,718,664	\$ 600,000	\$ 12,860,549	\$ 8,385,626

Legal Services Society Statement of Operations

For the year ended March 31, 2006

	2006	2005
Revenue		
Grants		
Government of British Columbia	\$ 62,084,609	\$ 55,936,801
Federal Investment Fund	2,916,758	3,649,577
Law Foundation	3,721,964	3,539,475
Notary Foundation	1,153,799	506,346
	<u>69,877,130</u>	<u>63,632,199</u>
Other income		
Interest	787,077	543,858
Miscellaneous	620,523	500,513
	<u>1,407,600</u>	<u>1,044,371</u>
Total income	\$ 71,284,730	\$ 64,676,570
Expenses		
Amortization	1,124,997	958,398
Local agents	711,300	700,200
Board expenses	105,291	88,474
Computers	892,925	839,149
Duty counsel	6,621,369	5,977,902
Grants and contracted services	3,635,940	3,463,285
Libraries	101,592	80,097
Miscellaneous	353,614	218,034
Office	1,221,998	1,315,237
Premises	1,485,179	1,594,247
Salaries and benefits	12,536,155	11,410,570
Tariffs	37,158,431	32,915,350
Transcripts	743,580	916,285
Travel	117,436	145,851
	<u>66,809,807</u>	<u>60,623,079</u>
Total expenses	\$ 66,809,807	\$ 60,623,079
Excess of revenue over expenses	\$ 4,474,923	\$ 4,053,491

Legal Services Society Statement of Cash Flows

For the year ended March 31, 2006

	2006	2005
Cash flows provided by (used in):		
Operating activities		
Excess of revenue over expenses for the year	\$ 4,474,923	\$ 4,053,491
Items not involving the outlay of cash		
Amortization	1,124,997	958,398
Accretion expense	18,000	1,000
	5,617,920	5,012,889
Changes in non-cash operating items		
Accounts receivable	(2,514,411)	801,834
Prepaid expenses	(286,759)	(179,585)
Accounts payable and accrued liabilities	(115,038)	532,493
Deferred income	336,314	600,642
	3,038,026	6,768,273
Financing activities		
Long-term liabilities	(78,506)	335,587
Investment activities		
Capital asset additions	(178,993)	(2,816,184)
Short-term investments	(3,226,554)	(9,079,309)
Long-term investments	-	1,517,133
	(3,405,547)	(10,378,360)
Net decrease in cash position	(446,027)	(3,274,500)
Cash position, beginning of year	1,657,956	4,932,456
Cash position, end of year	\$ 1,211,929	\$ 1,657,956
Supplemental cash flow information		
Non-cash transactions		
Increase in capital asset and related asset retirement obligation	\$ 23,000	\$ 206,000

Legal Services Society Notes to the Financial Statements

For the year ended March 31, 2006

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 9, 2002. 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 low-income individuals to resolve their legal problems and facilitate access to justice for them,
- establish and administer an effective and efficient system for providing legal aid to low-income individuals in British Columbia, and
- provide advice to the Attorney General about legal aid.

The Society is not subject to income taxes.

2. 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) Investments

Short-term investments include banker acceptances with a maturity of less than one year and pooled funds, and are carried at the lower of cost and market value.

(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	20%

(d) Assets 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 revenue 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

3. Investments

The carrying value of the Society's short-term investments is \$21,402,671 (2005 — \$18,176,117). Included in Accounts receivable — Other is \$11,175 for accrued interest (2005 — \$49,888). The investments have a market value at March 31, 2006, of \$21,413,506 (2005 — \$18,226,515).

4. Capital Assets

	Cost		Accumulated amortization	Net book value	
				2006	2005
Furniture	\$	615,610	\$ (309,395)	\$ 306,215	\$ 405,670
Equipment		1,124,274	(1,008,524)	115,750	149,074
Computer equipment		2,289,937	(1,958,362)	331,575	531,750
Computer software		922,071	(778,817)	143,254	280,354
Case Management System		1,126,527	(964,304)	162,223	242,287
Leasehold improvements		2,719,871	(986,003)	1,733,868	2,106,754
	\$	8,798,290	\$ (6,005,405)	\$ 2,792,885	\$ 3,715,889

5. Accounts Payable and Accrued Liabilities – Tariff

	2006	2005
Balance, beginning of the year	\$ 12,412,369	\$ 11,784,331
Duty counsel	6,621,339	5,977,902
Tariffs	37,158,431	32,915,350
Less tariff payments made during the year	(44,578,815)	(38,265,214)
Balance, end of the year	\$ 11,613,324	\$ 12,412,369

The Society uses an actuarial model to estimate legal services performed but not yet billed to the Society. Management estimated the liability for services performed but not yet billed to be approximately \$9,956,000 (2005 — \$8,516,000). The actuarial model incorporates average case costs and service billings for similar cases over a two-year period.

6. Deferred Income

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	Amortized to operations	Balance, end of the year
Law Foundation	\$ 124,162	\$ 152,413	\$ 110,372	\$ 166,203
Ministry of Children and Family Development	503,539	–	169,560	333,979
Government of British Columbia (exceptional matters*)	1,650,308	2,700,000	2,236,167	2,114,141
Total	\$ 2,278,009	\$ 2,852,413	\$ 2,516,099	\$ 2,614,323

* 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. 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.

7. Pension Plan

The Society and its employees contribute to the Municipal Pension 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 130,000 active members and approximately 48,000 retired members. Active members include approximately 30,000 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, 2003, indicated an unfunded liability of \$789 million for basic pension benefits. The next valuation will be as at December 31, 2006, with results available in 2007. The actuary does not attribute portions of the unfunded liability to individual employers. The Society paid \$661,384 for employer contributions to the plan in fiscal 2006 (2005 — \$527,846).

8. Long-Term Liabilities

	2006	2005
Asset retirement obligations	\$ 324,000	\$ 261,000
Lease inducements	258,081	358,587
	\$ 582,081	\$ 619,587

(a) Asset retirement obligations

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:

	2006	2005
Balance, beginning of the year	\$ 261,000	\$ 77,000
Liabilities incurred during the year	70,000	206,000
Accretion expense	18,000	1,000
Less: liabilities settled	(25,000)	(23,000)
Balance as at March 31, 2006	\$ 324,000	\$ 261,000

The accretion expense is included in the premises expense. The undiscounted estimated cash flows required to settle the obligation range from \$8,300 to \$280,000 during the years 2007 to 2014. The cash flows are discounted using a credit-adjusted risk-free rate of 5.0% (2005 — 3.0%).

(b) Lease inducements

Included within long-term liabilities are lease inducements that relate to inducements received during the negotiations of office lease agreements.

9. Invested in Capital Assets

	2006	2005
(a) Net assets invested in capital assets are calculated as follows:		
Capital assets	\$ 2,792,885	\$ 3,715,889
Amounts financed by:		
Asset retirement obligation, net of accretion expense	(251,000)	(206,000)
Balance, end of the year	\$ 2,541,885	\$ 3,509,889
(b) Excess of revenue over expenses:		
Amortization of capital assets	\$ (1,124,997)	\$ (958,398)
	\$ (1,124,997)	\$ (958,398)
(c) Net change in investment in capital assets:		
Net increase in capital assets	\$ 201,993	\$ 3,022,184
Change in asset retirement obligation	(45,000)	(131,000)
Change in capital assets	\$ 156,993	\$ (2,891,184)

10. Commitments

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

2007	\$ 623,079
2008	584,570
2009	557,537
2010	576,139
2011	598,112
Thereafter	2,065,949

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 \$16 million. This estimate uses the same methodology as described in note 5 for tariff payables.

11. Internally Restricted Net Assets

On March 31, 2003, the Ministry of Children and Family Development agreed to provide \$600,000 to establish a pilot project for alternative dispute resolution programs in relation to child protection. The funds are included in Deferred Income. The Society has matched this funding by internally restricting \$600,000 of net assets for the same purpose.

12. 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 \$62,084,609 (2005 — \$55,936,801) and the Society is responsible for providing legal aid to low-income individuals throughout BC. At year-end, the Province owed the Society \$3,242,859 (2005 — \$912,396).

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 \$127,710 (2005 — \$202,647). All payments to board members are reviewed by the finance committee on a quarterly basis.

13. Financial Instruments

The carrying value of the Society's financial instruments, including cash, short-term investments, accounts receivables, accounts payable, and accrued liabilities, approximate their fair value due to their immediate or short term to maturity.

14. Economic Dependence

In 2006, the Society received 87% (2005 — 86%) of its operating revenue from the Province and 5% (2005 — 5%) of its operating revenue from the Law Foundation of British Columbia. The Society depends on funding from these sources for the continuance of its operations.

15. Contingencies

The nature of the Society's activities is such that there is usually pending or prospective litigation at any time. With respect to claims at March 31, 2006, 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.

As at March 31, 2006, the Government of Canada, the Province of British Columbia, and the Society were named as defendants in a lawsuit filed by the Canadian Bar Association. The lawsuit alleges that the current Legal Aid Plan does not meet constitutionally protected standards. While the final outcome with respect to this claim cannot be predicted with certainty, management believes the resolution will not have a materially adverse effect on the Society's financial position or results of its operations.

16. Comparative Figures

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