

Legal Services Society

# Financial statements 2016/17

## 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 section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

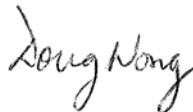
Management maintains a system of internal controls that ensures all material agreements and transactions of the society are properly recorded. The society's financial statements for the year ended March 31, 2017, have been examined by PricewaterhouseCoopers LLP. Their examination was made in accordance 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 PricewaterhouseCoopers 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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Mark Benton, QC  
Chief Executive Officer



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Doug Wong, CPA, CA  
Director, Finance and Corporate Services



May 18, 2017

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the Legal Services Society, which comprise the statement of financial position as at March 31, 2017 and the statements of operations and accumulated surplus, changes in net financial assets / liabilities and cash flows for the year ended March 31, 2017 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation of these financial statements in accordance with the accounting requirements outlined in Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia, 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 entity's preparation 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 entity'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.

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*PricewaterhouseCoopers LLP*  
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7*  
*T: +1 604 806 7000, F: +1 604 806 7806*



**Opinion**

In our opinion, the financial statements which comprise the statement of financial position as at March 31, 2017, the statements of operations and accumulated surplus, changes in net financial assets / liabilities and cash flows for the year ended March 31, 2017, and the related notes, are prepared, in all material respects, in accordance with the accounting requirements outlined in Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

**Emphasis of matter**

Without modifying our opinion, we draw your attention to note 2 to the financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. The impact of these differences was not material.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

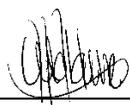
Legal Services Society

**Statement of financial position**

as at March 31, 2017

	2017	2016
<b>Financial assets</b>		
Financial assets		
Cash (note 16)	\$ 394,505	\$ 2,949,887
Investments (notes 4 and 16)	9,732,731	11,577,437
Accounts receivable (note 16)		
Government of British Columbia	1,802,490	1,306,166
Government of Canada	1,672,617	1,344,294
Other	724,790	581,058
<b>Total financial assets</b>	<b>14,327,133</b>	<b>17,758,842</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities		
General (note 5a)	1,965,165	2,617,306
Tariff (note 5b)	11,812,835	14,503,583
Employee future benefits (note 6b)	252,000	255,000
Long-term liabilities (note 7)	516,400	491,800
<b>Total liabilities</b>	<b>14,546,400</b>	<b>17,867,689</b>
<b>Net financial assets / (liabilities)</b>	<b>(219,267)</b>	<b>(108,847)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Schedule 1)	5,026,900	4,936,026
Prepaid expenses	532,062	512,516
<b>Total non-financial assets</b>	<b>5,558,962</b>	<b>5,448,542</b>
<b>Accumulated surplus (note 8)</b>	<b>\$ 5,339,695</b>	<b>\$ 5,339,695</b>
Contractual obligations (note 12)		
Contingent liabilities (note 15)		

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



Celeste Haldane  
Chair of the Board of Directors



Karen Christiansen, FCPA, FCA  
Chair of the Finance Committee

Legal Services Society

**Statement of operations and accumulated surplus**

for the year ended March 31, 2017

	<b>Budget (note 11)</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>			
Government of British Columbia (notes 9 and 13)	\$ 72,675,000	\$ <b>74,943,685</b>	\$ 72,594,180
Law Foundation	2,955,000	<b>3,085,000</b>	3,032,874
Justice Innovation and Transformation Initiatives	2,000,000	<b>2,000,000</b>	2,000,000
Department of Justice — Canada	—	<b>657,772</b>	891,170
Notary Foundation	600,000	<b>909,802</b>	756,289
Investment income	368,000	<b>285,091</b>	348,137
Miscellaneous	115,000	<b>107,746</b>	163,813
<b>Total revenue</b>	<b>78,713,000</b>	<b>81,989,096</b>	<b>79,786,463</b>
<b>Expenses (note 10)</b>			
Criminal tariff	40,258,000	<b>42,830,528</b>	41,613,922
Family tariff	14,366,000	<b>15,167,988</b>	14,609,496
Child protection tariff	8,119,000	<b>7,640,322</b>	7,176,142
Immigration and refugee tariff	2,075,000	<b>2,782,815</b>	2,147,780
Justice Innovation and Transformation Initiatives	2,000,000	<b>2,000,000</b>	2,000,000
Publishing	1,535,000	<b>1,762,922</b>	1,881,422
Community engagement	1,026,000	<b>1,029,951</b>	982,048
Indigenous services	595,000	<b>515,450</b>	656,615
Administration	8,739,000	<b>8,259,120</b>	8,719,038
<b>Total expenses</b>	<b>78,713,000</b>	<b>81,989,096</b>	<b>79,786,463</b>
<b>Net income</b>	—	—	—
<b>Accumulated surplus at beginning of year</b>	5,339,695	<b>5,339,695</b>	5,339,695
<b>Accumulated surplus at end of year (note 8)</b>	\$ 5,339,695	\$ <b>5,339,695</b>	\$ 5,339,695

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

Legal Services Society

**Statement of changes in net financial assets / liabilities**

for the year ended March 31, 2017

	<b>Budget</b> (note 11)	<b>2017</b>	<b>2016</b>
Annual deficit	\$ —	\$ —	\$ —
Acquisition of tangible capital assets	(500,000)	<b>(854,872)</b>	(491,220)
Amortization	776,705	<b>763,998</b>	773,990
	<u>276,705</u>	<u><b>(90,874)</b></u>	<u>282,770</u>
Acquisition of prepaid expenses	—	<b>(532,062)</b>	(512,516)
Use of prepaid expenses	—	<b>512,516</b>	246,119
	<u>—</u>	<u><b>(19,546)</b></u>	<u>(266,397)</u>
<b>Increase / (decrease) in net financial assets</b>	276,705	<b>(110,420)</b>	16,373
<b>Net financial assets at beginning of year</b>	<u>(108,847)</u>	<u><b>(108,847)</b></u>	<u>(125,220)</u>
<b>Net financial assets / (liabilities) at end of year</b>	\$ <u>167,858</u>	\$ <u><b>(219,267)</b></u>	\$ <u>(108,847)</u>

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

Legal Services Society

**Statement of cash flows**  
for the year ended March 31, 2017

	2017	2016
<b>Operating transactions</b>		
Cash received		
Transfers from Government of British Columbia	\$ 76,447,361	\$ 72,984,308
Grants received	3,942,772	3,770,130
Interest	285,091	348,137
GST recovered	—	282,663
Other	1,108,654	298,529
	<u>81,783,878</u>	<u>77,683,767</u>
Cash paid		
Legal aid tariff	61,090,574	54,208,039
Salaries and benefits	12,486,631	12,050,536
Rent	1,901,949	1,915,109
Services	2,434,537	2,485,913
GST paid	763,161	—
All other	6,652,244	7,367,744
	<u>85,329,096</u>	<u>78,027,341</u>
Cash used in operations	(3,545,218)	(343,574)
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	(854,870)	(491,220)
<b>Investing transactions</b>		
Investments purchased	(3,000,000)	—
Investments redeemed	4,844,706	2,350,180
Cash provided by investing transactions	<u>1,844,706</u>	<u>2,350,180</u>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>(2,555,382)</b>	<b>1,515,386</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,949,887</b>	<b>1,434,501</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 394,505</b>	<b>\$ 2,949,887</b>

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

## **Notes to the Financial Statements**

### **for the year ended March 31, 2017**

#### **1. Overview**

The Legal Services Society (the society) was established under the Legal Services Society Act on October 1, 1979 (as 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 and Minister of Justice respecting legal aid and access to justice for individuals in British Columbia.

The society is not subject to income taxes.

#### **2. Basis of presentation**

These financial statements are prepared by management in accordance with the accounting requirements of section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This section requires that financial statements be prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), except in regards to government transfers as described in notes 3(a).

#### **3. Significant accounting policies**

##### **(a) Revenue recognition**

Revenues are recognized in the period in which the transactions or events that give rise to the revenues occurred. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Restricted contributions received or receivable are deferred and amortized into revenue as the related expenses are incurred. This accounting policy complies with the accounting requirements of section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. However, this accounting treatment is different from the requirements of the Canadian PSAS, which require that government contributions be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability. In this case, the transfer is recognized as revenue over the period that the liability is extinguished. The impact of this policy on the financial statements was not significant.

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### **(b) Expenses**

Expenses are reported on an accrual basis. The cost of services incurred during the year is expensed.

### **(c) Tariff expenses**

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

### **(d) Employee future benefits**

- i. The society's employees belong to the Municipal Pension Plan, which is a multi-employer contributory pension plan. The society records its pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets, and costs to individual employers participating in the plan.
- ii. The cost of non-vesting sick leave benefits is actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, long-term inflation rates, and discount rates.

### **(e) Tangible capital assets**

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement, or betterment of the asset.

Tangible capital assets are amortized on a straight-line basis as follows:

<b>Assets</b>	<b>Per year</b>
Furniture	10 – 20%
Equipment	20%
Computer equipment	25 – 33%
Computer software	20 – 33%
Client Information System	10%
Leasehold improvements	Lower of lease term and useful life

Tangible capital assets are written down when conditions indicate that they no longer contribute to the society's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The net writedowns (if any) are accounted for as expenses in the statement of operations.

**(f) 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 amortized over the remaining life of the asset.

**(g) Prepaid expenses**

Prepaid expenses include memberships, computer software licenses, and deposits. These items are charged to expense over the periods expected to benefit from them.

**(h) Financial instruments**

The society's financial instruments consist of investments, accounts receivable, and accounts payable and accrued liabilities. Accounts receivable, and accounts payable and accrued liabilities are initially recorded at fair market value and subsequently measured at cost. Investments, which comprise guaranteed investment certificates, provincial bonds, corporate bonds, and structured bank notes, are initially recorded at fair market value and subsequently measured at amortized cost. The effective interest method is used to determine income.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A writedown of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

The fair values of the society's cash, accounts receivable, and accounts payable and accrued liabilities generally approximate their carrying amounts due to their short term to maturity. The fair values of the society's investments are disclosed in note 4. The fair value of the society's tariff accounts payable and accrued liabilities is not readily determinable.

**(i) Measurement uncertainty**

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

## Legal Services Society

statements include the tariff liabilities and expenses (note 17). Other areas where estimates are made include the valuation of accounts receivable, amortization of tangible capital assets, asset retirement obligation, non-vested sick leave benefits and contingent liabilities.

Estimates are based on the best information available at the time of the preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from those estimates.

### 4. Investments

The carrying value of the society's investments is \$9,732,731 (2016 — \$11,577,437). Included in investments is \$184,792 for accrued interest (2016 — \$166,437). Investments have maturities ranging from April 2017 to February 2020 and rates of return ranging from 1.51% to 2.35%.

The investments have a market value at March 31, 2017, of \$9,732,296 (2016 — \$11,589,013). Investments are recorded at amortized cost less any writedowns associated with a loss in value that is other than a temporary decline.

### 5. Accounts payable and accrued liabilities

#### (a) General

	2017	2016
Trade payables	\$ 1,140,499	\$ 1,372,273
Payroll payables	824,667	1,245,033
<b>Total</b>	<b>\$ 1,965,166</b>	<b>\$ 2,617,306</b>

#### (b) Tariff

	2017	2016
Submittals approved, not paid	\$ 362,886	\$ 2,249,250
Submittals not approved	1,298,949	1,298,333
Accrual (note 17)	10,151,000	10,956,000
<b>Total</b>	<b>\$ 11,812,835</b>	<b>\$ 14,503,583</b>

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 \$10,151,000 (2016 — \$10,956,000). 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 (notes 3(i) and 17).

## 6. Employee future benefits

### (a) Pension plan

The society and its employees contribute to the Municipal Pension Plan (jointly trusted pension). The board of trustees, representing plan members and employers, is responsible for administering the pension plan, including investing assets and administering benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2015, the Municipal Pension Plan had about 189,000 active members and approximately 85,000 retired members.

The latest actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2.2 billion funding surplus for basic pension benefits. The next valuation will be as at December 31, 2018, with results available in 2019.

During the year, the society paid \$842,582 (2016 — \$827,637) for employer contributions to the plan.

### (b) Non-vested sick leave

Employees are credited days per year, ranging from six to 10 days, for use as paid absences in the year due to illness or injury. Employees are allowed to accumulate unused sick day credits each year, up to the allowable maximum provided in their respective employment agreement.

Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick days for sick-leave compensation ceases on termination of employment. The benefit cost and liabilities related to the plan are included in the financial statements.

<b>Non-vested sick leave</b>	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 255,000	\$ 259,000
Expense	14,400	16,000
Expected benefits paid	(17,400)	(20,000)
Balance, end of year	\$ 252,000	\$ 255,000

## 7. Long-term liabilities

### 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:

	2017	2016
Balance, beginning of year	\$ 491,800	\$ 468,400
Accretion expense	24,600	23,400
Balance, end of year	\$ 516,400	\$ 491,800

The accretion expense is included in the premises expense. The undiscounted estimated cash flows required to settle the obligations ongoing to December 31, 2019, are \$591,000 (2016 — \$591,000). The cash flows are discounted using a credit-adjusted, risk-free rate of 5% (2016 — 5%).

## 8. Accumulated surplus

	2017	2016
<b>Total accumulated surplus at end of year</b>	<b>\$ 5,339,695</b>	<b>\$ 5,339,695</b>
Internally restricted for Client Information System	\$ 3,448,360	\$ 3,874,180
Internally restricted for strategic initiatives	\$ 1,891,335	\$ 1,465,515

The board of directors has authorized the following restrictions on the accumulated surplus:

- In fiscal 2013, the board of directors restricted the entire accumulated surplus to be used for board-directed strategic initiatives and allocated \$4.3 million of those funds for the Client Information System (CIS) to replace the legacy Case Management System.
- CIS was installed and went live in April 2015 at a total cost of \$4.258 million. An additional \$778,861 was capitalized during the 2016/17 fiscal year, bringing the total cost to date to \$5.037 million.
- The accumulated surplus internally restricted for CIS is intended to be drawn down at a rate of approximately \$430,000 per year, as the cost of the CIS project is amortized over the anticipated useful life of the asset.
- These funds are not available for other purposes without approval by the board of directors.

## 9. Restricted contribution

	Opening deferred contribution	Approved budget	Additional contributions	Amortized to operations	Closing deferred contribution
Government of British Columbia — Category B	\$ —	\$1,813,000	\$343,753	\$2,156,753	\$ —

The society's Memorandum of Understanding (MOU) with the Minister of Justice and Attorney General of British Columbia provides for restricted funding for exceptional matters commencing with the 2003 fiscal year. Effective April 1, 2014, the MOU was revised to provide clarification on criminal case classification and funding of these cases.

There are now three categories:

- **Category A:** Within the approved budget within which a case will be accounted for, where the total of the fees and disbursements are less than or equal to \$75,000.
- **Category B:** Within the approved budget within which a case will be accounted for, where the total of the fees and disbursements exceed \$75,000 and are less than or equal to \$175,000, or where it is a court-appointed counsel case or a charter-required counsel case. 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 and then to deferred contributions.
- **Category C:** Within the approved budget within which a case will be accounted for, where the total of the fees and disbursements exceed \$175,000 or where the case is one in which the rate payable to counsel exceeds the society's enhanced fee rate. These cases are funded through a special funding agreement with the Ministry of Justice.

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### 10. Expenses by object

The following is a summary of expenses by object:

	2017 Budget	2017 Actual	2016 Actual
Lawyer fees	\$ 38,360,000	\$ 42,280,424	\$ 39,800,378
Duty counsel fees	9,317,829	10,107,990	9,793,442
Disbursements	5,840,116	6,011,412	5,550,501
<b>Total tariff costs</b>	<b>53,517,945</b>	<b>58,399,826</b>	<b>55,144,321</b>
Salaries and benefits	12,250,950	12,066,265	12,578,922
Grants and contracted services	5,371,857	4,700,493	4,771,388
Premises	1,858,536	1,896,759	1,915,109
Local agents	1,820,500	1,768,880	1,722,457
Computers	1,637,761	1,095,119	1,558,408
Office	720,381	726,505	779,287
Amortization	776,705	763,998	773,990
Miscellaneous	438,711	307,177	265,612
Board expenses	195,754	149,239	152,984
Travel	123,900	114,835	123,985
<b>Total</b>	<b>\$ 78,713,000</b>	<b>\$ 81,989,096</b>	<b>\$ 79,786,463</b>

### 11. Budgeted figures

The operating budgeted figures, presented on a basis consistent with that used for actual results, were approved by the board of directors on January 15, 2016, and submitted to the Ministry of Justice on February 17, 2016. The Attorney General and Minister of Justice approved the budget on March 19, 2016.

### 12. Contractual obligations

The society has the following contractual obligations:

	Premises leases	Operating costs	Total
2018	\$ 948,248	\$ 3,546,846	\$ 4,495,094
2019	977,435	1,391,707	2,369,142
2020	734,013	—	734,013
<b>Total</b>	<b>\$ 2,659,696</b>	<b>\$ 4,938,553</b>	<b>\$ 7,598,249</b>

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At 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 \$21.9 million. This estimate uses the same methodology as described in note 5 for tariff payables.

### **13. 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 \$76,943,685 (2016 — \$74,594,180) and the society is responsible for providing legal aid to individuals throughout British Columbia. At year-end, the province owed the society \$1,802,490 (2016 — \$1,306,166).

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 \$45,221 (2016 — \$21,848). All payments to board members are reviewed by the finance committee on a quarterly basis.

### **14. Economic dependence**

In 2017, the society received 94% (2016 — 93%) of its operating revenue from the Province of British Columbia.

### **15. Contingent liabilities**

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, 2017, management believes the society has valid defences and appropriate insurance coverage in place. Accordingly, no provision has been made in these financial statements for any liability that may result. 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. Risk management**

#### **Credit risk**

Credit risk is the risk of loss resulting from failure of an individual or group to honour their financial obligations. The society's accounts receivable are due primarily from government organizations and reputable organizations. The society's cash and investments are held at Canadian chartered banks and Canadian financial institutions, respectively. The society is not exposed to significant credit risk.

At year-end, there were no significant accounts receivable that were past due and not impaired.

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### Liquidity risk

Liquidity risk is the risk that the society will not be able to meet its financial obligations as they fall due. The society's approach to managing liquidity risk is to ensure that it will have sufficient working capital and cash flow to fund operations and settle liabilities when due. Additionally, the society has a line of credit up to \$1.0 million with a Canadian chartered bank. The interest rate per annum is the bank's prime rate. At March 31, 2017, the society has \$nil drawn against this line (2016 — \$nil).

The maturity of the society's financial assets and liabilities as at year-end was as follows:

#### 2017

	On demand	Up to 1 year	1 to 3 years	Total
<b>Financial assets</b>				
Cash	\$ 394,505	—	—	\$ 394,505
Investments	—	7,145,441	2,587,290	9,732,731
Accounts receivable	—	4,199,897	—	4,199,897
<b>Total financial assets</b>	<b>\$ 394,505</b>	<b>\$ 11,345,338</b>	<b>\$ 2,587,290</b>	<b>\$ 14,327,133</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	—	3,627,001	—	3,627,001
Tariff accrual	—	10,151,000	—	10,151,000
Other liabilities	—	768,400	—	768,400
<b>Total financial liabilities</b>	<b>—</b>	<b>\$ 14,546,401</b>	<b>—</b>	<b>\$ 14,546,401</b>

#### 2016

	On demand	Up to 1 year	1 to 3 years	Total
<b>Financial assets</b>				
Cash	\$ 2,949,887	—	—	\$ 2,949,887
Investments	—	7,509,106	4,068,331	11,577,437
Accounts receivable	—	3,231,518	—	3,231,518
<b>Total financial assets</b>	<b>\$ 2,949,887</b>	<b>\$ 10,740,624</b>	<b>\$ 4,068,331</b>	<b>\$ 17,758,842</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	—	6,164,889	—	6,164,889
Tariff accrual	—	10,956,000	—	10,956,000
Other liabilities	—	746,800	—	746,800
<b>Total financial liabilities</b>	<b>—</b>	<b>\$ 17,867,689</b>	<b>—</b>	<b>\$ 17,867,689</b>

## Legal Services Society

### Market risk

Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

#### (a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The society is not exposed to significant currency risk.

#### (b) Interest rate risk

Interest rate risk is the risk that the society's investments will change in fair value due to future fluctuations in market interest rates. The fair value of the investments, and the income they generate, varies as market interest rates vary. All other financial instruments are non-interest bearing. The society mitigates this risk by monitoring interest rates.

#### (c) Other price risk

Other 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 (other than those arising from interest rate risk or currency risk). The society is not exposed to significant other price risk.

### 17. Measurement uncertainty

Program area		Amount reported	Measurement uncertainty	Range
Tariff accrual ( <i>note 5b</i> )	Min	\$ 10,151,000	\$ (1,015,100)	\$ 9,135,900
	Max	\$ 10,151,000	\$ 1,015,100	\$ 11,166,100
Tariff and discretionary expenses ( <i>note 10</i> )	Min	\$ 58,399,826	\$ (1,015,100)	\$ 57,384,726
	Max	\$ 58,399,826	\$ 1,015,100	\$ 59,414,926

Variability in the tariff accrual arises from the rate at which cases proceed and changes in the average cost per case. In management's opinion, the tariff accrual and corresponding tariff expenses could change within a range of +/-10%.

During the year ended March 31, 2016, the society engaged an independent actuarial firm to review the tariff accrual model. The review concluded that, in the aggregate, the tariff model remains appropriate for determining the amount to be accrued. The next review will be in January 2019 with the results reported in the March 31, 2019 financial statements.

### 18. Corresponding figures

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

Legal Services Society

## Schedule 1

### Tangible capital assets

#### Cost

	Balance, beginning of year	2017 Additions	2017 Deletions	Balance, end of year
Furniture	\$ 1,107,829	\$ —	—	\$ 1,107,829
Equipment	525,765	85,795	—	611,560
Computer equipment	1,007,840		—	1,007,840
Computer software	2,355,331	29,775	(39,559)	2,345,547
Client Information System	4,258,204	778,861	—	5,037,065
Leasehold improvements	2,613,401	—	—	2,613,401
<b>Total</b>	\$ 11,868,370	\$ 894,431	\$ (39,559)	\$ 12,723,242

#### Accumulated amortization

	Balance, beginning of year	2017 Additions	2017 Deletions	Balance, end of year
Furniture	\$ (936,278)	\$ (52,690)	—	\$ (988,968)
Equipment	(519,887)	(5,216)	—	(525,103)
Computer equipment	(966,340)	(26,794)	—	(993,134)
Computer software	(2,082,934)	(65,191)	—	(2,148,125)
Client Information System	(425,820)	(425,820)	—	(851,640)
Leasehold improvements	(2,001,085)	(188,287)	—	(2,189,372)
<b>Total</b>	\$ (6,932,344)	\$ (763,998)	—	\$ (7,696,342)

#### Net book value

	2017	2016
Furniture	\$ 118,861	\$ 171,551
Equipment	86,457	5,878
Computer equipment	14,706	41,500
Computer software	197,422	272,397
Client Information System	4,185,425	3,832,384
Leasehold improvements	424,029	612,316
<b>Total</b>	\$ 5,026,900	\$ 4,936,026