

Financial statements 2013/14

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, 2014, 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.



Mark Benton, QC
Chief Executive Officer



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



May 15, 2014

Independent Auditor's Report

To the Board 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, 2014 and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year ended March 31, 2014 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 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements which comprise the statement of financial position as at March 31, 2014, the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year ended March 31, 2014, and the related notes, are prepared, in all material respects, in accordance with 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 3 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. Note 17 to the financial statements disclose the impact of these differences.

PricewaterhouseCoopers LLP

Chartered Accountants

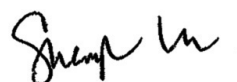
Statement of financial position as at March 31, 2014

| | 2014 | 2013 |
|--|---------------------|---------------------|
| Financial assets | | |
| Current assets | | |
| Cash (note 16) | \$ 3,035,056 | \$ 2,602,953 |
| Investments (notes 4 and 16) | 12,974,300 | 15,642,803 |
| Accounts receivable | | |
| Government of British Columbia | 932,800 | 1,042,756 |
| Government of Canada | 615,284 | 2,028,704 |
| Other (note 16) | 520,130 | 629,782 |
| Total financial assets | 18,077,570 | 21,946,998 |
| Liabilities | | |
| Accounts payable and accrued liabilities | | |
| General (note 5a) | 2,207,831 | 1,499,477 |
| Tariff (note 5b) | 12,829,725 | 15,463,248 |
| Employee future benefits (note 6b) | 252,000 | 235,000 |
| Deferred contributions (note 7) | 630,553 | 1,044,970 |
| Long-term liabilities (note 8) | 565,200 | 546,756 |
| Total liabilities | 16,485,309 | 18,789,451 |
| Net financial assets | 1,592,261 | 3,157,547 |
| Non-financial assets | | |
| Tangible capital assets (schedule 1) | 3,472,119 | 2,284,300 |
| Prepaid expenses | 393,424 | 515,957 |
| Total non-financial assets | 3,865,543 | 2,800,257 |
| Accumulated surplus (note 9) | \$ 5,457,804 | \$ 5,957,804 |
| Contractual obligations (note 12) | | |
| Contingent liabilities (note 15) | | |

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



Tom Christensen
Chair of the Board of Directors



Sheryl N. Lee, CPA, CA
Chair of the Finance Committee

Statement of operations and accumulated surplus for the year ended March 31, 2014

| | Budget (note 11) | 2014 | 2013 |
|--|-------------------|---------------------|-------------------|
| Revenue | | | |
| Government of British Columbia (note 13) | \$ 72,526,000 | \$ 75,193,824 | \$ 78,413,934 |
| Law Foundation | 3,650,000 | 3,718,793 | 3,807,162 |
| Notary Foundation | 400,000 | 486,872 | 510,127 |
| Investment income | 530,000 | 397,847 | 578,358 |
| Miscellaneous | 115,000 | 260,526 | 233,094 |
| Total revenue | 77,221,000 | 80,057,862 | 83,542,675 |
| Expenses (note 10) | | | |
| Criminal tariff | 40,621,000 | 44,638,998 | 47,276,039 |
| Family tariff | 16,961,500 | 15,762,341 | 16,819,996 |
| Child protection tariff | 7,109,300 | 8,209,429 | 7,407,307 |
| Immigration tariff | 1,739,300 | 1,965,505 | 1,747,597 |
| Publishing | 1,345,700 | 1,539,942 | 1,521,279 |
| Community engagement | 870,300 | 823,771 | 873,834 |
| Aboriginal services | 557,500 | 465,952 | 586,470 |
| Administration | 8,016,400 | 7,151,924 | 7,707,886 |
| Total expenses | 77,221,000 | 80,557,862 | 83,940,408 |
| Annual deficit | — | (500,000) | (397,733) |
| Accumulated surplus at beginning of year | 6,355,537 | 5,957,804 | 6,355,537 |
| Accumulated surplus at end of year (note 9) | \$ 6,355,537 | \$ 5,457,804 | \$ 5,957,804 |

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

Legal Services Society

Statement of changes in net financial assets for the year ended March 31, 2014

| | Budget (note 11) | 2014 | 2013 |
|--|---------------------|---------------------|---------------------|
| Annual operating deficit | \$ — | \$ (500,000) | \$ (397,733) |
| Acquisition of tangible capital assets | (2,790,000) | (1,795,001) | (551,489) |
| Amortization | 723,215 | 607,182 | 731,246 |
| | (2,066,785) | (1,187,819) | 179,757 |
| Acquisition of prepaid expenses | — | (393,424) | (515,957) |
| Use of prepaid expenses | — | 515,957 | 269,418 |
| | — | 122,533 | (246,539) |
| Decrease in net financial assets | (2,066,785) | (1,565,286) | (464,515) |
| Net financial assets at beginning of year | 3,157,547 | 3,157,547 | 3,622,062 |
| Net financial assets at end of year | \$ 1,090,762 | \$ 1,592,261 | \$ 3,157,547 |

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

Statement of cash flows for the year ended March 31, 2014

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Operating transactions | | |
| Cash received | | |
| Transfers from Government of British Columbia | \$ 74,958,407 | \$ 78,164,235 |
| Grants received | 4,125,795 | 4,186,785 |
| Interest | 397,847 | 578,358 |
| HST recovered | 1,413,420 | — |
| Other | 381,005 | 139,718 |
| | 81,276,474 | 83,069,096 |
| Cash paid | | |
| Legal aid tariff | 62,554,417 | 61,152,666 |
| Salaries and benefits | 10,930,942 | 10,828,903 |
| Rent | 1,722,199 | 1,742,608 |
| Services | 2,396,501 | 2,388,235 |
| HST paid | — | 509,920 |
| All other | 4,113,814 | 5,764,372 |
| | 81,717,873 | 82,386,704 |
| Cash (applied to)/provided by operations | (441,399) | 682,392 |
| Capital transactions | | |
| Cash used to acquire tangible capital assets | (1,795,001) | (551,490) |
| Investing transactions | | |
| Investments purchased | (5,000,000) | (10,500,000) |
| Investments redeemed | 7,668,503 | 11,458,148 |
| | 2,668,503 | 958,148 |
| Increase in cash | 432,103 | 1,089,050 |
| Cash and cash equivalents at beginning of year | 2,602,953 | 1,513,903 |
| Cash and cash equivalents at end of year | \$ 3,035,056 | \$ 2,602,953 |

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, 2014

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 Minister of Justice and Attorney General 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 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 regard to government transfers as described in notes 3(a) and 17.

3. Significant accounting policies

(a) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that give rise to the revenues. 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 approach complies with 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. See note 17 for the impact of this policy on the financial statements.

(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 amounts 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 cost of the defined benefit contributions is recognized as an expense during the year, and is based on the contributions required to be made during each period.
- 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:

| Assets | 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 |

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 depreciated over the remaining life of the asset.

(g) Prepaid expenses

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

(h) Financial instruments

The society adopted PS 3450 – Financial Instruments, effective April 1, 2012. Other than increased disclosures, the new standard did not materially impact the society's financial statements.

The society's financial instruments consist of investments, accounts receivable, and accounts payable and accrued liabilities. Cash, accounts receivable, and accounts payable and accrued liabilities are measured at cost. Investments, which comprise Guaranteed Investment Certificates, Provincial Bonds, Corporate Bonds, and Structured Bank Notes, are 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 statements include the tariff liabilities and expenses (note 18). Other areas where estimates are made include the valuation of accounts receivable, amortization of tangible capital assets, asset retirement obligation, non-vesting sick leave benefits, and contingent liabilities.

Estimates are based on the best information available at the time of 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 \$12,974,300 (2013 — \$15,642,803). Included in investments is \$189,301 for accrued interest (2013 — \$291,395). Investments have maturities ranging from April 2014 to May 2017 and rates of return ranging from 1.64% to 3.1%.

The investments have a market value at March 31, 2014, of \$12,966,315 (2013 — \$15,645,713). 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

| | 2014 | | 2013 | |
|------------------|------|------------------|------|--------------------|
| Trade payables | \$ | 1,550,356 | \$ | 840,608 |
| Payroll payables | | 657,475 | | 658,869 |
| Total | \$ | 2,207,831 | \$ | \$1,499,477 |

(b) Tariff

| | 2014 | | 2013 | |
|-------------------------------|------|-------------------|------|-------------------|
| Submittals approved, not paid | \$ | 858,390 | \$ | 1,949,598 |
| Submittals not approved | | 1,087,335 | | 2,479,650 |
| Accrual | | 10,884,000 | | 11,034,000 |
| Total | \$ | 12,829,725 | \$ | 15,463,248 |

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 \$10,884,000 (2013 — \$11,034,000). 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 18).

7. Deferred contributions

| | Balance, beginning of year | Restricted contributions | Amortized to operations | Balance, end of year |
|--|----------------------------|--------------------------|-------------------------|----------------------|
| Government of British Columbia Criminal Category B | 975,926 | 1,813,000 | 2,158,373 | 630,553 |
| Other | 69,044 | — | 69,044 | — |
| Total | \$ 1,044,970 | \$ 1,813,000 | \$ 2,227,417 | \$ 630,553 |

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, 2010, the MOU was revised to provide clarification on criminal case classification and funding of these cases.

6. Employee future benefits

(a) 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 based on a formula. The plan has about 179,000 active members and approximately 71,000 retired members. Active members include approximately 134 contributors from the society.

The most recent actuarial valuation as at December 31, 2012, indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015, with results available in 2016. Employers participating in the plan record their 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, with the result that there is no consistent and reliable basis for allocating the obligation, assets, and cost to individual employers participating in the plan.

The society paid \$722,856 for employer contributions to the plan in fiscal 2014 (2013 — \$683,980).

(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.

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 Justice.

8. Long-term liabilities

| | 2014 | | 2013 | |
|---------------------------------|-----------|----------------|-----------|----------------|
| Asset retirement obligation (a) | \$ | 565,200 | \$ | 537,000 |
| Leasehold inducements | | — | | 9,756 |
| Total | \$ | 565,200 | \$ | 546,756 |

(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:

| | 2014 | | 2013 | |
|----------------------------|-----------|----------------|-----------|----------------|
| Balance, beginning of year | \$ | 537,000 | \$ | 502,000 |
| Accretion expense | | 28,200 | | 35,000 |
| Balance, end of year | \$ | 565,200 | \$ | 537,000 |

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% (2013 — 5%).

9. Accumulated surplus

| | 2014 | | 2013 | |
|---|-----------|------------------|-----------|------------------|
| Internally restricted for ISIS project | \$ | 4,300,000 | \$ | 4,300,000 |
| Internally restricted for strategic initiatives | | 1,157,804 | | 1,657,804 |
| Total | \$ | 5,457,804 | \$ | 5,957,804 |

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 ISIS project (to replace the Case Management System), of which approximately \$3.1 million has been committed to date and \$1.9 million has been paid.
- The accumulated surplus will be drawn down as the cost of the ISIS project is amortized over the anticipated useful life of the asset.
- In fiscal 2014, the board of directors sought and received approval from the Treasury Board to use up to \$0.5 million of accumulated surplus to offset the current year tariff cost pressures.
- These funds are not available for other purposes without the board of directors' approval.

10. Expenses by object

The following is a summary of expenses by object:

| | 2014 Budget | 2014 Actual | 2013 Actual |
|--------------------------------|----------------------|----------------------|----------------------|
| Tariff | \$ 44,835,000 | \$ 49,557,303 | \$ 51,975,454 |
| Salaries and benefits | 10,946,140 | 10,929,548 | 10,884,792 |
| Duty counsel | 8,995,570 | 9,468,955 | 9,429,182 |
| Grants and contracted services | 4,421,450 | 3,504,899 | 3,863,221 |
| Premises | 1,947,710 | 1,722,199 | 1,742,608 |
| Local agents | 1,700,560 | 1,675,555 | 1,637,388 |
| Computers | 952,450 | 1,052,957 | 1,138,657 |
| Transcripts | 1,000,000 | 894,636 | 1,267,965 |
| Office | 768,770 | 632,113 | 726,700 |
| Amortization | 739,280 | 607,182 | 731,246 |
| Miscellaneous | 570,670 | 250,941 | 272,933 |
| Board expenses | 218,600 | 172,427 | 171,951 |
| Travel | 124,800 | 89,147 | 98,311 |
| Total | \$ 77,221,000 | \$ 80,557,862 | \$ 83,940,408 |

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 February 15, 2013, and submitted to the Ministry of Justice. The minister approved the budget on March 21, 2013.

12. Contractual obligations

The society has the following contractual obligations for long-term leases of its office premises, and other contractual obligations:

| Year | |
|--------------|---------------------|
| 2015 | \$ 2,017,458 |
| 2016 | 827,221 |
| 2017 | 873,825 |
| 2018 | 920,429 |
| 2019 | 961,208 |
| Thereafter | 734,013 |
| Total | \$ 6,334,154 |

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 \$24.1 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 \$75,193,824 (2013 — \$78,413,934) and the society is responsible for providing legal aid to individuals throughout BC. At year-end, the province owed the society \$932,800 (2013 — \$1,042,756).

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 \$66,363 (2013 — \$37,727). All payments to board members are reviewed by the finance committee on a quarterly basis.

14. Economic dependence

In 2013, the society received 94% (2013 — 94%) of its operating revenue from the province, and 5% (2013 — 5%) from the Law Foundation of British Columbia. The society depends on funding from these sources for the continuance of its operations.

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, 2014, 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 March 31, 2014, the following accounts receivable were past due but not impaired:

| Accounts receivable | |
|---------------------|-------------------|
| Current | \$ 330,415 |
| 30 days | 8,561 |
| 60 days | 16,323 |
| 90 days | 80,060 |
| Over 120 days | 84,771 |
| Total | \$ 520,130 |

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.

| Financial assets | On demand | Up to 1 year | 1 to 3 years | Over 3 years | Total |
|--|---------------------|-------------------|------------------|------------------|----------------------|
| Cash | \$ 3,035,056 | — | — | — | \$ 3,035,056 |
| Investments | — | 7,235,314 | 4,736,626 | 1,002,360 | 12,974,300 |
| Accounts receivable | — | 2,068,214 | — | — | 2,068,214 |
| Total financial assets | \$ 3,035,056 | 9,303,528 | 4,736,626 | 1,002,360 | \$ 18,077,570 |
| Financial liabilities | | | | | |
| Accounts payable and accrued liabilities | \$ — | 4,153,556 | — | — | \$ 4,153,556 |
| Tariff accrual | — | 10,884,000 | — | — | 10,884,000 |
| Total financial liabilities | \$ — | 15,037,556 | — | — | \$ 15,037,556 |

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. Impact of accounting for government contributions

in accordance with section 23.1 of the Budget Transparency and Accountability Act

As disclosed in note 3(a), section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and its related regulations require the society to recognize restricted contributions into revenue as the related expenses are incurred. As these contributions do not contain stipulations that create a liability for the society, PSAS would require these contributions be recognized as revenue in the period when authorized and all eligibility criteria are met. The impact of this accounting policy difference on these financial statements is as follows:

| Date | Impact | | Amount |
|----------------------------------|--|----|------------------|
| March 31, 2012 | Increase in accumulated surplus and decrease in deferred contributions | \$ | 2,146,034 |
| Year ended March 31, 2013 | Increase in annual deficit | \$ | 1,101,064 |
| March 31, 2013 | Increase in accumulated surplus and decrease in deferred contributions | \$ | 1,044,970 |
| Year ended March 31, 2014 | Increase in annual deficit | \$ | 414,417 |
| March 31, 2014 | Increase in accumulated surplus and decrease in deferred contributions | \$ | 630,553 |

18. Measurement uncertainty

| Program area | | Amount reported | Measurement uncertainty | Range |
|---------------------------|-----|-----------------|-------------------------|---------------|
| Tariff accrual (note 5b) | Min | \$ 10,884,000 | \$ (1,088,400) | \$ 9,795,600 |
| | Max | \$ 10,884,000 | \$ 1,088,400 | \$ 11,972,400 |
| Tariff expenses (note 10) | Min | \$ 49,557,303 | \$ (1,088,400) | \$ 48,468,903 |
| | Max | \$ 49,557,303 | \$ 1,088,400 | \$ 50,645,703 |

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, 2013, 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.

19. Corresponding figures

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

Schedule 1

Tangible capital assets

Cost

| | Balance, beginning of year | | Additions | | Disposals | | Balance, end of year | |
|------------------------|-------------------------------|------------------|-----------|------------------|------------------|----|-------------------------|-------------------|
| Furniture | \$ | 1,207,017 | \$ | — | (99,188) | \$ | | 1,107,829 |
| Equipment | | 524,800 | | — | — | | | 524,800 |
| Computer equipment | | 929,567 | | 27,406 | — | | | 956,973 |
| Computer software | | 2,400,698 | | | (263,463) | | | 2,137,235 |
| ISIS computer system | | 139,240 | | 1,767,595 | — | | | 1,906,835 |
| Case Management System | | 1,126,527 | | — | — | | | 1,126,527 |
| Leasehold improvements | | 2,613,401 | | — | — | | | 2,613,401 |
| Total | \$ | 8,941,250 | \$ | 1,795,001 | (362,651) | \$ | | 10,373,600 |

Accumulated amortization

| | Balance, beginning of year | | Additions | | Disposals | | Balance, end of year | |
|------------------------|-------------------------------|--------------------|-----------|------------------|----------------|----|-------------------------|--------------------|
| Furniture | \$ | (808,113) | \$ | (113,304) | 99,188 | \$ | | (822,229) |
| Equipment | | (499,168) | | (7,371) | — | | | (506,539) |
| Computer equipment | | (750,210) | | (73,506) | — | | | (823,716) |
| Computer software | | (2,043,374) | | (222,492) | 263,463 | | | (2,002,403) |
| ISIS computer system | | — | | — | — | | | — |
| Case Management System | | (1,126,527) | | — | — | | | (1,126,527) |
| Leasehold improvements | | (1,429,558) | | (190,509) | — | | | (1,620,067) |
| Total | \$ | (6,656,950) | \$ | (607,182) | 362,651 | \$ | | (6,901,481) |

Net book value

| | 2014 | | 2013 | |
|------------------------|------|------------------|------|-----------|
| Furniture | \$ | 285,600 | \$ | 398,904 |
| Equipment | | 18,261 | | 25,632 |
| Computer equipment | | 133,257 | | 179,357 |
| Computer software | | 134,832 | | 496,564 |
| ISIS computer system | | 1,906,835 | | — |
| Case Management System | | — | | — |
| Leasehold improvements | | 993,334 | | 1,183,843 |
| Total | \$ | 3,472,119 | \$ | 2,284,300 |