

Legal Services Society

Financial statements 2017/18

Legal Services Society management's responsibility for the financial statements

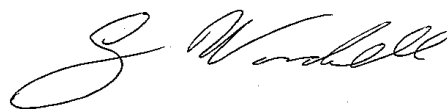
Management is responsible for the preparation of the society's financial statements. This responsibility includes maintaining the integrity and objectivity of the society's financial records, and presenting the society's financial statements in accordance with section 23.1 of the Budget Transparency 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, 2018, 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



Eugene Wandell, CPA, CMA
Vice President, Finance and Corporate Services



May 16, 2018

Independent Auditor's Report

To the Board of Directors of the Legal Services Society and to the Ministry of Attorney General 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, 2018 and the statements of operations and accumulated surplus, changes in net financial assets / liabilities and cash flows for the year then ended, 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.

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, 2018 and the statements of operations and accumulated surplus, changes in net financial assets / liabilities and cash flows for the year then ended, 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 differences between such basis of accounting and Canadian Public Sector Accounting Standards. The impact of these differences was not material to the financial statements.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

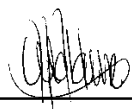
Legal Services Society

Statement of financial position

as at March 31, 2018

	2018	2017
Financial assets		
Cash (note 16)	\$ 1,713,163	\$ 394,505
Investments (notes 4 and 16)	9,974,187	9,732,731
Accounts receivable (note 16)		
Government of British Columbia (note 13)	3,115,312	1,802,490
Government of Canada	529,430	1,672,617
Other	633,082	724,790
Total financial assets	15,965,174	14,327,133
Liabilities		
Accounts payable and accrued liabilities		
General (note 5a)	2,973,658	1,965,165
Tariff (note 5b)	14,200,641	11,812,835
Employee future benefits (note 3dii)	252,000	252,000
Long-term liabilities (note 7)	625,184	516,400
Total liabilities	18,051,483	14,546,400
Net financial (liabilities)	(2,086,309)	(219,267)
Non-financial assets		
Tangible capital assets (Schedule 1)	5,532,504	5,026,900
Prepaid expenses	493,500	532,062
Total non-financial assets	6,026,004	5,558,962
Accumulated surplus (note 8)	\$ 3,939,695	\$ 5,339,695
Contractual obligations (note 12)		
Economic dependence (note 14)		
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, 2018

	Budget (note 11)	2018	2017
Revenue			
Government of British Columbia (notes 9 and 13)	\$ 72,796,000	\$ 76,548,645	\$ 74,943,685
Law Foundation	3,085,000	2,346,250	3,085,000
Justice Innovation and Transformation Initiatives	4,800,000	4,122,159	2,000,000
Department of Justice — Canada	—	203,635	657,772
Notary Foundation	600,000	872,755	909,802
Investment income	368,000	254,779	285,091
Miscellaneous	115,000	231,741	107,746
Total revenue	81,764,000	84,579,964	81,989,096
Expenses (note 10)			
Criminal tariff	40,262,845	43,765,083	42,830,528
Family tariff	14,347,027	14,766,382	15,167,988
Child protection tariff	8,140,572	7,780,990	7,640,322
Immigration and refugee tariff	2,138,655	2,981,391	2,782,815
Justice Innovation and Transformation Initiatives	4,800,000	3,857,159	2,000,000
Publishing	1,709,251	1,787,067	1,762,922
Community engagement	1,025,584	1,063,296	1,029,951
Indigenous services	610,432	638,275	515,450
Administration	8,729,634	9,340,321	8,259,120
Total expenses	81,764,000	85,979,964	81,989,096
Net loss	—	(1,400,000)	—
Accumulated surplus at beginning of year	5,339,695	5,339,695	5,339,695
Accumulated surplus at end of year (note 8)	\$ 5,339,695	\$ 3,939,695	\$ 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, 2018

	Budget (note 11)	2018	2017
Net loss	\$ —	\$ (1,400,000)	\$ —
Acquisition of tangible capital assets	(650,000)	(1,345,004)	(854,872)
Amortization	777,000	790,671	763,998
Loss from disposal of tangible capital assets		48,729	
	127,000	(505,604)	(90,874)
Acquisition of prepaid expenses	—	(493,500)	(532,062)
Use of prepaid expenses	—	532,062	512,516
	—	38,562	(19,546)
Increase/(decrease) in net financial assets/(liabilities)	127,000	(1,867,042)	(110,420)
Net financial (liabilities) at beginning of year	(219,267)	(219,267)	(108,847)
Net financial (liabilities) at end of year	\$ (92,267)	\$ (2,086,309)	\$ (219,267)

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, 2018

	2018	2017
Operating transactions		
Cash received		
Transfers from Government of British Columbia	\$ 79,357,982	\$ 76,447,361
Grants received	3,219,005	3,942,772
Interest	254,779	285,091
GST recovered	837,178	—
Leasehold inducement received	193,410	—
Other	833,093	1,108,654
	<u>84,695,447</u>	<u>81,783,878</u>
Cash paid		
Legal aid tariff	56,816,112	61,090,574
Salaries and benefits	12,899,788	12,486,631
Rent	1,931,212	1,901,949
Services	2,434,537	2,434,537
GST paid	—	763,161
All other	7,708,680	6,652,244
	<u>81,790,329</u>	<u>85,329,096</u>
Cash provided by (used in) operations	2,905,118	(3,545,218)
Capital transactions		
Cash used to acquire tangible capital assets	(1,345,004)	(854,870)
Investing transactions		
Investments purchased	(3,000,000)	(3,000,000)
Investments redeemed	2,758,544	4,844,706
Cash provided by (used in) investing transactions	<u>(241,456)</u>	<u>1,844,706</u>
Increase/(decrease) in cash	1,318,658	(2,555,382)
Cash at beginning of year	394,505	2,949,887
Cash at end of year	\$ 1,713,163	\$ 394,505

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, 2018

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 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 note 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 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.

Legal Services Society

(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 method is used 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-vested 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:

Assets	Per year
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.

Legal Services Society

(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, which 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 cash, 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.

(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 17). Other areas where estimates are

Legal Services Society

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.

(j) Newly adopted accounting standards:

Effective April 1, 2017, the society adopted the following new accounting standards:

- i. PS 2200, *Related Party Disclosures*. PS 2200 defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when the transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated, and the transactions have, or could have, a material financial effect on the financial statements.
- ii. PS 3420, *Inter-entity Transactions*. PS 3420 establishes standards of how to account for and report transactions between public sector entities that comprise a government reporting entity from both a provider and a recipient perspective. Requirements of this standard are considered in conjunction with requirements of PS 2200.
- iii. PS 3210, *Assets*. PS 3210 provides guidance for applying the definition of assets set out in PS 1000, *Financial Statement Concepts*, and establishes general disclosure standards for assets. Disclosure of information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate of the amount involved cannot be made, a disclosure should be provided.
- iv. PS 3320, *Contingent Assets*. PS 3320 defines and establishes disclosure standards for contingent assets. Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.
- v. PSAB issued PS 3380, *Contractual Rights*. PS 3380 defines and establishes disclosure standards for contractual rights. Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Disclosure of information about contractual rights is required including description of their nature and extent, and the timing.

There was no impact to the financial statements upon transition to these standards.

4. Investments

The carrying value of the society's investments is \$9,974,187 (2017 — \$9,732,731). Included in investments is \$147,253 for accrued interest (2017 — \$184,792). Investments have maturities ranging from April 2018 to December 2020 and rates of return ranging from 1.23% to 2.65%.

Legal Services Society

The investments have a market value at March 31, 2018, of \$9,959,683 (2017 — \$9,732,296). 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

	2018	2017
Trade payables	\$ 2,110,276	\$ 1,140,498
Payroll payables	863,382	824,667
Total	\$ 2,973,658	\$ 1,965,165

(b) Tariff

	2018	2017
Submittals approved, not paid	\$ 3,770,390	\$ 362,886
Submittals not approved	1,301,251	1,298,949
Accrual (<i>note 17</i>)	9,129,000	10,151,000
Total	\$ 14,200,641	\$ 11,812,835

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 \$9,129,000 (2017 — \$10,151,000). 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 plan). The board of trustees for this plan, 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, 2016, the Municipal Pension Plan had approximately 193,000 active members and 90,000 retired members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may

Legal Services Society

be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015, indicated a \$2.224 billion funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1.927 billion was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged. The next valuation for the Municipal Pension Plan will be as at December 31, 2018, with results available in 2019.

The society paid \$903,647 (2017 — \$842,582) 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. Employee unused sick bank is not paid out at retirement.

7. Long-term liabilities

	2018	2017
Asset retirement obligation	\$ —	\$ 516,400
Leasehold inducements	625,184	—
Balance, end of year	\$ 625,184	\$ 516,400

(a) Asset retirement obligation

In previous years, long-term liabilities included 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. During fiscal 2017/18, the society negotiated an extension to the lease. Included in the extension was the removal of the asset retirement obligation. The asset retirement obligation has been redesignated as a leasehold inducement and is being amortized over the period of the new lease. The following is a reconciliation of the changes in the asset retirement obligation during the year:

Legal Services Society

	2018	2017
Balance, beginning of year	\$ 516,400	\$ 491,800
Accretion expense	17,148	24,600
Transfer to leasehold inducements	(533,548)	—
Balance, end of year	\$ —	\$ 516,400

The accretion expense is included in the premises expense.

(b) Leasehold inducements

	2018	2017
Total leasehold inducements	\$ 683,341	\$ —
Less: current portion	(58,157)	—
Long-term portion	\$ 625,184	\$ —

8. Accumulated surplus

	2018	2017
Total accumulated surplus at end of year	\$ 3,939,695	\$ 5,339,695
Internally restricted for Client Information System	\$ 2,944,653	\$ 3,448,360
Internally restricted for strategic initiatives	\$ 995,042	\$ 1,891,335

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 \$1.553 million was capitalized during the past two fiscal years, bringing the total cost to date to \$5.811 million.
- The accumulated surplus internally restricted for CIS will be drawn down as the cost of the CIS project is amortized
- 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	Recognized in operations	Closing deferred contribution
Government of British Columbia — Category B	\$ —	\$1,813,000	\$997,008	\$2,810,008	\$ —

The society's Memorandum of Understanding (MOU) with the Ministry of the Attorney General 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 is 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 exceeds \$75,000 and is 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 exceeds \$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 the Attorney General.

Legal Services Society

10. Expenses by object

The following is a summary of expenses by object:

	2018 Budget	2018 Actual	2017 Actual
Lawyer fees	\$ 38,360,003	\$ 42,963,356	\$ 42,280,424
Duty counsel fees	9,350,829	10,109,050	10,107,990
Disbursements	5,840,115	6,131,512	6,011,412
Total tariff costs	53,550,947	59,203,918	58,399,826
Salaries and benefits	13,087,121	12,938,505	12,066,265
Grants and contracted services	7,897,080	5,561,961	4,700,493
Premises	2,004,021	1,931,212	1,896,759
Local agents	1,820,500	1,768,587	1,768,880
Computers	1,148,328	1,924,010	1,095,119
Office	744,543	976,642	726,505
Amortization	776,706	839,400	763,998
Miscellaneous	357,046	570,799	307,177
Board expenses	205,508	159,313	149,239
Travel	172,200	105,617	114,835
Total	\$ 81,764,000	\$ 85,979,964	\$ 81,989,096

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 17, 2017, and submitted to the Ministry of the Attorney General on February 20, 2017 and was approved on March 16, 2017.

12. Contractual obligations

The society has the following contractual obligations:

	Premises leases	Operating costs	Total
2019	\$ 1,067,196	\$ 4,745,192	\$ 5,812,388
2020	1,017,957	748,321	1,766,278
2021	1,157,769	46,800	1,204,569
2022	1,157,769	—	1,157,769
2023	1,169,420	—	1,169,420
Thereafter	7,038,502	—	7,038,502
Total	\$ 12,608,613	\$ 5,540,313	\$ 18,148,926

Legal Services Society

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 \$21.5 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 \$80,670,804 (2017 — \$76,943,685), and the society is responsible for providing legal aid to individuals throughout British Columbia. At year-end, the province owed the society \$3,115,312 (2017 — \$1,802,490).

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 \$40,106 (2017 — \$45,221). All payments to board members are reviewed by the finance committee on a quarterly basis.

14. Economic dependence

In 2018, the society received 95% (2017 — 94%) 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, 2018, 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 or impaired.

Legal Services Society

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, 2018, the society has \$nil drawn against this line (2017 — \$nil).

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

2018

	On demand	Up to 1 year	1 to 3 years	Total
Financial assets				
Cash	\$ 1,713,163	\$ —	\$ —	\$ 1,713,163
Investments	—	5,390,193	4,583,994	9,974,187
Accounts receivable	—	4,277,824	—	4,277,824
Total financial assets	\$ 1,713,163	\$ 9,668,017	\$ 4,583,994	\$ 15,965,174
Liabilities				
Accounts payable and accrued liabilities	—	8,045,299	—	8,045,299
Tariff accrual	—	9,129,000	—	9,129,000
Other liabilities	—	877,184	—	877,184
Total liabilities	—	\$ 18,051,483	—	\$ 18,051,483

2017

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

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	\$ 9,129,000	\$ (912,900)	\$ 8,216,100
	Max	\$ 9,129,000	\$ 912,900	\$ 10,041,900
Tariff and transcript expenses (<i>note 10</i>)	Min	\$ 59,203,918	\$ (912,900)	\$ 58,291,018
	Max	\$ 59,203,918	\$ 912,900	\$ 60,116,818

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.

Legal Services Society

Schedule 1

Tangible capital assets

Cost

	Balance, beginning of year	2018 Additions	2018 Disposals	Balance, end of year
Furniture	\$ 1,107,829	\$ —	—	\$ 1,107,829
Equipment	611,560	34,938	—	646,498
Computer equipment	1,007,840	270,918	—	1,278,758
Computer software	2,345,547	—	—	2,345,547
Client Information System	5,037,065	774,149	—	5,811,214
Leasehold improvements	2,613,401	265,000	(400,737)	2,477,664
Total	\$ 12,723,242	\$ 1,345,005	\$ (400,737)	\$ 13,667,510

Included in leasehold improvements is \$265,000 of additions in 2018 that are not yet being amortized.

Accumulated amortization

	Balance, beginning of year	2018 Additions	2018 Disposals	Balance, end of year
Furniture	\$ (988,968)	\$ (35,210)	—	\$ (1,024,178)
Equipment	(525,103)	(18,211)	—	(543,314)
Computer equipment	(993,134)	(10,145)	—	(1,003,279)
Computer software	(2,148,125)	(62,830)	—	(2,210,955)
Client Information System	(851,640)	(503,707)	—	(1,355,347)
Leasehold improvements	(2,189,372)	(160,568)	352,007	(1,997,933)
Total	\$ (7,696,342)	\$ (790,671)	352,007	\$ (8,135,006)

Net book value

	2018	2017
Furniture	\$ 83,651	\$ 118,861
Equipment	103,184	86,457
Computer equipment	275,479	14,706
Computer software	134,592	197,422
Client Information System	4,455,867	4,185,425
Leasehold improvements	479,731	424,029
Total	\$ 5,532,504	\$ 5,026,900