

Financial Statements

The Legal Aid Society of Alberta

March 31, 2002

AUDITORS' REPORT

To the Board of Directors of
The Legal Aid Society of Alberta

We have audited the statement of financial position of **The Legal Aid Society of Alberta** as at March 31, 2002 and the statements of changes in net assets, revenues and expenses and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
April 29, 2002

Ernst + Young LLP

Chartered Accountants

The Legal Aid Society of Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31

	2002	2001
	\$	\$
ASSETS		
Current		
Cash and term deposits	28,776,046	26,058,703
Interest receivable	126,664	336,586
Prepaid expenses	228,321	138,578
Goods and services tax rebates receivable	153,899	291,438
	29,284,930	26,825,305
Capital assets [note 4]	1,014,073	656,418
	30,299,003	27,481,723
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	127,096	142,302
Accrued vacation pay	426,041	372,707
Capital lease obligation	4,613	4,199
Provision for services provided on outstanding certificates [notes 3 and 5]	15,638,000	20,600,000
	16,195,750	21,119,208
Capital lease obligation	-	4,613
	16,195,750	21,123,821
Contingencies and commitments [notes 5 and 8]		
Net assets		
Invested in capital assets [note 3]	1,009,460	647,606
Internally restricted [notes 5 and 7]	11,361,040	2,900,000
Unrestricted	1,732,753	2,810,296
	14,103,253	6,357,902
	30,299,003	27,481,723

See accompanying notes

On behalf of the Board:

Director

Director

The Legal Aid Society of Alberta

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31

	2002			2001	
	Invested in Capital Assets \$	Internally Restricted \$	Unrestricted \$	Total \$	Total \$
Balance, beginning of year as previously presented	-	2,900,000	2,810,296	5,710,296	7,065,713
Restatement of deferred capital contributions <i>[note 3]</i>	647,606	-	-	647,606	560,955
Balance, beginning of year as restated	647,606	2,900,000	2,810,296	6,357,902	7,626,668
Excess (deficiency) of revenue over expenses	-	-	7,745,351	7,745,351	(1,268,766)
Internally imposed restrictions <i>[note 7]</i>					
Computer development	-	60,000	(60,000)	-	-
Pilot projects	-	(2,780,000)	2,780,000	-	-
Outstanding certificates	-	7,000,000	(7,000,000)	-	-
Price/volume stabilization	-	4,181,040	(4,181,040)	-	-
Purchase of capital assets	640,049	-	(640,049)	-	-
Amortization of capital assets	(278,195)	-	278,195	-	-
Balance, end of year	1,009,460	11,361,040	1,732,753	14,103,253	6,357,902

See accompanying notes

The Legal Aid Society of Alberta

STATEMENT OF REVENUES AND EXPENSES

Year ended March 31

	2002 \$	2001 \$
REVENUES		
Province of Alberta <i>[notes 3 and 6]</i>	27,242,000	22,542,000
Alberta Law Foundation grant	4,157,388	2,962,205
Recoveries and contributions from clients	2,673,985	2,579,954
Interest and other	1,203,599	1,462,225
	35,276,972	29,546,384
EXPENSES		
Legal aid fees and disbursements - private bar	21,973,042	19,470,549
Salaries and benefits - youth, family law and direct service staff	6,605,472	4,782,340
	28,578,514	24,252,889
Increase (decrease) in provision for outstanding certificates to private bar <i>[note 5]</i>	(4,962,000)	3,600,000
	23,616,514	27,852,889
Administration:		
Salaries and benefits	1,326,338	1,332,473
Rent	848,488	573,138
Computer operations and maintenance	287,881	120,919
Travel and allowances	205,104	174,771
Office and sundry	194,159	81,701
Non-rebateable goods and services tax	124,655	75,571
Amortization of capital assets	278,195	213,798
Other	650,287	389,890
	27,531,621	30,815,150
Excess (deficiency) of revenues over expenses	7,745,351	(1,268,766)

See accompanying notes

The Legal Aid Society of Alberta

STATEMENT OF CASH FLOWS

Year ended March 31

	2002	2001
	\$	\$
CASH FLOWS FROM OPERATIONS		
Received from the Province of Alberta	27,242,000	22,542,000
Received from the Alberta Law Foundation	4,157,388	2,962,205
Contributions from clients	2,673,985	2,579,954
Net interest received	1,456,195	1,128,889
Fees and disbursements paid to lawyers	(22,717,769)	(20,008,242)
Salaries and benefits paid to employees	(7,050,487)	(5,200,340)
Payments to suppliers and service providers	(2,399,721)	(1,625,036)
	3,361,591	2,379,430
CASH FLOWS FROM INVESTMENT AND FINANCING ACTIVITIES		
Purchase of capital assets	(640,049)	(300,449)
Proceeds on sale of capital assets	-	6,750
Repayment of capital lease obligation	(4,199)	(16,082)
	(644,248)	(309,781)
Increase in cash and term deposits	2,717,343	2,069,649
Cash and term deposits, beginning of year	26,058,703	23,989,054
Cash and term deposits, end of year	28,776,046	26,058,703

See accompanying notes

The Legal Aid Society of Alberta

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

1. THE ORGANIZATION

The Legal Aid Society of Alberta (the "Society"), registered as a Society under the laws of the Province of Alberta, operates by agreement effective April 1, 2001 between the Society, the Law Society of Alberta and the Attorney General of the Province of Alberta to assist individuals of modest means in obtaining legal representation in criminal and civil matters. Under the provisions of the Income Tax Act (Canada), the Society is exempt from income tax.

In addition to the general legal aid services provided to Albertans through the facilities of the Edmonton, Calgary and Regional Offices, the Society operates two other specific programs. The Youth Criminal Defence Office, located in Edmonton and Calgary, provides staff lawyers to represent young offenders. The Family Law Office, a pilot project, commenced operations in Edmonton in July 2001 and in Calgary on October 2001, and provides legal services in the family law area.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by the Society's management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with such principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue recognition

The Society's primary sources of funding are contributions from the Province of Alberta and the Alberta Law Foundation, recoveries and contributions from clients, and interest and other investment income.

The Society follows the deferral method of accounting for contributions. Contributions from the Province of Alberta are recognized as revenue in the year in which the related expenses are incurred. Other contributions, including funding from the Alberta Law Foundation, are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Interest and other revenue are recognized as revenue when earned.

Recoveries and contributions from recipients of legal aid services cannot be reasonably estimated in advance due to the uncertainty of collection. Accordingly, recoveries and contributions are recorded as revenue when received.

The Legal Aid Society of Alberta

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expense recognition

Expenses are recognized on an accrual basis when incurred. Legal aid fees and disbursements are eligible for payment in respect of services authorized on issued legal aid certificates. The Society records the estimated value of services provided but not submitted for payment on outstanding certificates in the period in which the services are provided. Legal expenses thereby include amounts billed to the Society by lawyers and an estimate of amounts for work performed but not yet billed.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided at the following rates designed to amortize the cost of the assets over their estimated useful lives:

Furniture	10% declining balance
Equipment	20% declining balance
Computer hardware	25% declining balance
Computer software	25% declining balance
Leasehold improvements	Straight-line over term of lease

Financial instruments

The fair value of financial instruments, comprised of monetary assets and liabilities, approximates their carrying value unless otherwise disclosed. The Society is exposed to fluctuations in interest rates and credit risk on its fixed income investments. These risks are managed by limiting the Society's investments to relatively short-term certificates of deposit with a Canadian chartered bank or banks.

Contributed materials and services

Contributed materials and services are not recorded in the financial statements. Volunteers contribute hours in carrying out governance and other activities of the Society. Due to the difficulty in determining their fair value, contributed volunteer services are not recognized in the financial statements.

The Legal Aid Society of Alberta

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

3. RESTATEMENT OF COMPARATIVE FIGURES

(a) Change in accounting policy

The Society changed its method of accounting for funding received from the Province of Alberta used to acquire capital assets. Previously, the Society considered a portion of the contributions received from the Province of Alberta to apply to the acquisition of capital assets and accounted for the allocated contributions as deferred capital contributions. The Society now recognizes all contributions received from the Province of Alberta as revenue in the year in which the expenses are incurred and accounts for the acquisition of capital assets as an expenditure of unrestricted net assets. The effect of the change in accounting policy has been applied retroactively and the financial statements of prior years have been restated. The effect of the change as at March 31, 2001 was to reduce deferred capital contributions by \$647,606 (March 31, 2000 - \$560,955) and increased net assets invested in capital assets by \$647,606 (March 31, 2000 - \$560,955). Revenue recognized from contributions received from the Province of Alberta increased by \$300,449 and amortization of deferred capital contributions reduced by \$213,798 for the year ended March 31, 2001.

(b) Reclassification of comparative figures

Certain figures from the 2001 financial statements related to deferred contributions and revenue from the Province of Alberta have been reclassified to conform to the presentation adopted in the 2002 financial statements. The effect of the reclassification was to reduce deferred contributions by \$20,600,000 and increase the provision for services provided on outstanding certificates by \$20,600,000 as at March 31, 2001. Revenue recognized from contributions received from the Province of Alberta increased by \$3,600,000 and private bar legal expenses increased by \$3,600,000 for the year ended March 31, 2001.

4. CAPITAL ASSETS

	2002		2001	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Furniture	289,420	77,144	117,826	53,558
Equipment	310,464	151,731	204,155	112,048
Computer hardware	1,024,500	664,889	814,340	556,577
Computer software	662,376	427,266	549,646	352,507
Leasehold improvements	134,020	94,923	117,905	84,321
	2,420,780	1,415,953	1,803,872	1,159,011
Equipment under capital lease	20,063	10,817	20,063	8,506
	2,440,843	1,426,770	1,823,935	1,167,517
Net book value	1,014,073		656,418	

The Legal Aid Society of Alberta

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

5. PROVISION FOR SERVICES PROVIDED ON OUTSTANDING CERTIFICATES

(a) Liability

The provision for services provided by members of the private bar which have not yet been billed on outstanding certificates, is estimated at year-end using a method that incorporates historical average costs and time frames to complete similar cases. At March 31, 2002, the Society has approximately 33,250 (2001 - 29,690) outstanding certificates with an estimated liability of \$15,638,000 (2001 - \$20,600,000). The estimated liability is subject to measurement uncertainty. Measurement uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount. Due to the uncertainty involved in the estimation process, there will likely be a difference between the estimated and actual liability and the difference may be material.

During the year ended March 31, 2002, the Society reviewed its method of estimating the year-end provision for unbilled services for outstanding certificates. Based on this review and on the information accumulated with respect to the status of the outstanding certificates at March 31, 2002, the Society revised its method of estimating the provision and recorded the effect of the change of estimate in the current year. The effect of the change in estimate was to reduce the provision at March 31, 2002 from what it would have been under the previous method by \$7,947,000.

(b) Contingent liability

In addition to the liability for services provided on outstanding certificates, the Society estimates the future expected costs to complete such certificate files. The Society internally restricts net assets to ensure that adequate resources are available to complete the outstanding certificates (see Note 7). At March 31, 2002 there is an estimated \$7,000,000 that could be incurred on approximately 33,250 outstanding certificates over and above both the billings paid to date and work performed but not yet billed. Due to the uncertainty in the estimation process, there will likely be a difference between the estimated and actual contingent liability and the difference could be material.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2002

6. DEFERRED CONTRIBUTIONS

Contributions received from the Province of Alberta are deferred and recognized as revenue in the year in which the related expenses are incurred.

	2002	2001
	\$	\$
Balance, beginning of year	-	-
Province of Alberta receipts	27,242,000	22,542,000
Balance of contributions available to fund operations	27,242,000	22,542,000
Less amount recognized as revenue	27,242,000	22,542,000
Balance, end of year	-	-

7. INTERNALLY RESTRICTED NET ASSETS

	2002	2001
	\$	\$
Pilot projects	-	2,780,000
Computer development	180,000	120,000
Outstanding certificates	7,000,000	-
Price/volume stabilization	4,181,040	-
	11,361,040	2,900,000

Pilot projects

For the year ended March 31, 2001, the Society internally restricted \$2,780,000 of resources to be used to establish and operate the Family Law Office pilot project. During the year ended March 31, 2002, this funding was used to fund Family Law Office operations (\$2,313,392) and to purchase capital assets (\$466,608).

Computer development

As at March 31, 2002, the Board of Directors has internally restricted \$180,000 (2001 - \$120,000) in anticipation of future major computer development projects. Management anticipates that such major development projects will be undertaken within the next year.

Outstanding certificates

For the year ended March 31, 2002, the Society internally restricted \$7,000,000 of resources to be used to fund the estimated contingent liability from outstanding certificates (see Note 5).

The Legal Aid Society of Alberta

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

7. INTERNALLY RESTRICTED NET ASSETS (CONTINUED)

Price/volume stabilization

For the year ended March 31, 2002, the Society internally restricted \$4,181,040 of resources to be used to fund future unforeseen expenses. The amount restricted, as directed under the Legal Aid Governance Agreement, is equivalent to 20% of certain specific prior year's direct legal (non-administrative) expenses.

8. COMMITMENTS

The Society is committed, under operating leases for office premises and equipment, until June 30, 2007 to make annual lease payments in the next five years as follows:

	\$
2003	993,326
2004	936,988
2005	907,991
2006	817,717
2007	377,139
	4,033,161