

Financial Statements

**The Legal Aid Society of Alberta**

March 31, 2003

## 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, 2003 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Edmonton, Canada  
April 18, 2003

Chartered Accountants

**The Legal Aid Society of Alberta**

**STATEMENT OF FINANCIAL POSITION**

As at March 31

	2003 \$	2002 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and term deposits	26,785,969	28,776,046
Interest receivable	158,408	75,545
Accounts receivable	67,490	51,119
Prepaid expenses	236,060	228,321
Goods and services tax rebates receivable	326,155	153,899
	<u>27,574,082</u>	<u>29,284,930</u>
Capital assets <i>[note 3]</i>	1,004,076	1,014,073
	<u>28,578,158</u>	<u>30,299,003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	204,506	127,096
Accrued vacation pay	462,123	426,041
Capital lease obligation	-	4,613
Provision for services provided on outstanding certificates <i>[note 4]</i>	13,400,000	15,638,000
	<u>14,066,629</u>	<u>16,195,750</u>
Contingencies and commitments <i>[notes 4 and 8]</i>		
<b>Net assets</b>		
Invested in capital assets	1,004,076	1,009,460
Internally restricted <i>[notes 4 and 6]</i>	6,800,000	11,361,040
Unrestricted	6,707,453	1,732,753
	<u>14,511,529</u>	<u>14,103,253</u>
	<u>28,578,158</u>	<u>30,299,003</u>

*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

	2003			2002	
	Invested in Capital Assets \$	Internally Restricted \$	Unrestricted \$	Total \$	Total \$
<b>Balance, beginning of year</b>	<b>1,009,460</b>	<b>11,361,040</b>	<b>1,732,753</b>	<b>14,103,253</b>	6,357,902
Excess of revenue over expenses	-	-	408,276	408,276	7,745,351
Internally imposed restrictions <i>[note 6]</i>					
Computer development	-	(180,000)	180,000	-	-
Outstanding certificates	-	(200,000)	200,000	-	-
Price/volume stabilization	-	(4,181,040)	4,181,040	-	-
Purchase of capital assets	268,237	-	(268,237)	-	-
Repayment of capital lease obligation	4,613	-	(4,613)	-	-
Amortization of capital assets	(278,234)	-	278,234	-	-
<b>Balance, end of year</b>	<b>1,004,076</b>	<b>6,800,000</b>	<b>6,707,453</b>	<b>14,511,529</b>	14,103,253

*See accompanying notes*

**The Legal Aid Society of Alberta**

**STATEMENT OF REVENUES AND EXPENSES**

Year ended March 31

	2003 \$	2002 \$
<b>REVENUES</b>		
Province of Alberta <i>[note 5]</i>	28,187,000	27,242,000
Alberta Law Foundation grant	2,600,819	4,157,388
Recoveries and contributions from clients	3,076,490	2,673,985
Interest and other	975,963	1,203,599
	<b>34,840,272</b>	<b>35,276,972</b>
<b>EXPENSES <i>[note 7]</i></b>		
Private bar – legal aid fees and disbursements:		
Criminal adult	12,333,892	10,733,802
Civil	8,041,618	8,396,278
Duty counsel	1,016,505	858,635
Young offenders	1,848,811	1,651,567
Court-ordered counsel	312,228	260,470
Provincial	120,201	72,290
	<b>23,673,255</b>	<b>21,973,042</b>
Decrease in provision for outstanding certificates to private bar <i>[note 4]</i>	<b>(2,238,000)</b>	<b>(4,962,000)</b>
	<b>21,435,255</b>	<b>17,011,042</b>
Direct programs and projects	810,330	744,727
Program support	3,657,568	3,470,451
Youth Criminal Defence Office	2,070,567	1,875,354
Family Law Office	4,186,274	2,407,325
General and administrative expenses	2,272,002	2,022,722
	<b>12,996,741</b>	<b>10,520,579</b>
<b>Total expenditures</b>	<b>34,431,996</b>	<b>27,531,621</b>
<b>Excess of revenues over expenses</b>	<b>408,276</b>	<b>7,745,351</b>

*See accompanying notes*

**The Legal Aid Society of Alberta**

**STATEMENT OF CASH FLOWS**

Year ended March 31

	<b>2003</b>	<b>2002</b>
	\$	\$
<b>CASH FLOWS FROM OPERATIONS</b>		
Received from the Province of Alberta	<b>28,187,000</b>	27,242,000
Received from the Alberta Law Foundation	<b>2,600,819</b>	4,157,388
Contributions from clients	<b>3,076,490</b>	2,673,985
Net interest received	<b>894,332</b>	1,456,195
Fees and disbursements paid to lawyers	<b>(23,673,255)</b>	(21,973,042)
Salaries and benefits paid to employees	<b>(9,918,617)</b>	(7,835,449)
Payments to suppliers and service providers	<b>(2,883,996)</b>	(2,359,486)
	<b>(1,717,227)</b>	3,361,591
<b>CASH FLOWS FROM INVESTMENT AND FINANCING ACTIVITIES</b>		
Purchase of capital assets	<b>(268,237)</b>	(640,049)
Repayment of capital lease obligation	<b>(4,613)</b>	(4,199)
	<b>(272,850)</b>	(644,248)
<b>Increase (decrease) in cash and term deposits</b>	<b>(1,990,077)</b>	2,717,343
Cash and term deposits, beginning of year	<b>28,776,046</b>	26,058,703
<b>Cash and term deposits, end of year</b>	<b>26,785,969</b>	28,776,046

*See accompanying notes*

## **The Legal Aid Society of Alberta**

### **NOTES TO FINANCIAL STATEMENTS**

March 31, 2003

#### **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 in Edmonton and Calgary, 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, 2003

### 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 include amounts billed to the Society by lawyers and an estimate of amounts for work performed but not yet billed.

#### Cash and term deposits

Cash and term deposits consist of cash and term deposits with periods to maturity of less than six months.

#### 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, 2003

#### 3. CAPITAL ASSETS

	2003		2002	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Furniture	298,803	99,310	289,420	77,144
Equipment	366,784	203,395	310,464	151,731
Computer hardware	1,160,886	787,497	1,024,500	664,889
Computer software	740,934	505,683	662,376	427,266
Leasehold improvements	141,673	109,119	134,020	94,923
	2,709,080	1,705,004	2,420,780	1,415,953
Equipment under capital lease	-	-	20,063	10,817
	2,709,080	1,705,004	2,440,843	1,426,770
<b>Net book value</b>	<b>1,004,076</b>		<b>1,014,073</b>	

#### 4. 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, 2003, the Society has approximately 32,250 (2002 – 33,250) outstanding certificates with an estimated liability of \$13,400,000 (2002 - \$15,638,000). 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.

##### (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 6). At March 31, 2003 there is an estimated \$6,800,000 that could be incurred on approximately 32,250 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.

**The Legal Aid Society of Alberta**

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2003

**5. 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.

	<b>2003</b>	<b>2002</b>
	\$	\$
<b>Balance, beginning of year</b>	-	-
Province of Alberta receipts	<b>28,187,000</b>	27,242,000
<b>Balance of contributions available to fund operations</b>	<b>28,187,000</b>	27,242,000
Less amount recognized as revenue	<b>28,187,000</b>	27,242,000
<b>Balance, end of year</b>	-	-

**6. INTERNALLY RESTRICTED NET ASSETS**

	<b>2003</b>	<b>2002</b>
	\$	\$
Outstanding certificates	<b>6,800,000</b>	7,000,000
Computer development	-	180,000
Price/volume stabilization	-	4,181,040
	<b>6,800,000</b>	11,361,040

**Outstanding certificates**

For the year ended March 31, 2003, the Society internally restricted \$6,800,000 of resources to be used to fund the estimated contingent liability from outstanding certificates (see Note 4).

**Computer development**

During the year, the Society approved the transfer of \$180,000 from internally restricted to unrestricted net assets. These net assets had previously been internally restricted for future computer development projects. Future computer development will be completed as part of the Society's on-going operations and will be funded from unrestricted net assets.

# The Legal Aid Society of Alberta

## NOTES TO FINANCIAL STATEMENTS

March 31, 2003

### 6. INTERNALLY RESTRICTED NET ASSETS (CONTINUED)

#### Price/volume stabilization

During the year, the Society approved the transfer of \$4,181,040 from internally restricted to unrestricted net assets. This amount had previously been internally restricted to fund future unforeseen expenditures. As required by the Legal Aid Governance Agreement, the Society shall provide for sufficient financial resources to pay any unforeseen expenditures. The required financial resources is equivalent to up to 20% of the prior year's direct legal (non-administrative) expenditures. As at March 31, 2003, the financial resources for unforeseen expenditures are included in unrestricted net assets.

### 7. EXPENDITURES

Expenditures reflected in the Statement of Revenues and Expenses reclassified by object are as follows:

	2003	2002
	\$	\$
Salaries and benefits	9,994,781	7,893,935
Rent	975,076	848,488
Computer operations and maintenance	343,524	287,881
Travel and allowances	225,781	208,046
Office and sundry	482,466	520,984
Non-rebateable goods and services tax	118,630	124,655
Amortization of capital assets	278,234	278,195
Other	578,249	358,395
	<b>12,996,741</b>	<b>10,520,579</b>

### 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 following amounts:

	\$
2004	971,352
2005	934,958
2006	835,275
2007	306,588

**The Legal Aid Society of Alberta**

**NOTES TO FINANCIAL STATEMENTS**

March 31, 2003

**9. COMPARATIVE FIGURES**

Certain of the 2002 figures have been restated to conform with the presentation adopted in 2003.