

LEGAL AID ONTARIO
AUDITED
FINANCIAL STATEMENTS
2018 - 2019



LEGAL AID ONTARIO

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Management's statement of responsibility

The Management of Legal Aid Ontario is responsible for the preparation, presentation and integrity of the accompanying financial statements, Management's Discussion and Analysis and all other information contained in this Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and best estimates necessary to prepare the financial statements in accordance with Canadian public sector accounting standards with appropriate consideration to materiality. The significant accounting policies followed by Legal Aid Ontario are described in the financial statements.


Management has developed and maintains a system of internal control, business practices and financial reporting to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced on a timely basis. Internal auditors, who are employees of Legal Aid Ontario, review and evaluate internal controls on management's behalf.

The Board of Directors of Legal Aid Ontario ensures that management fulfils its responsibilities for financial information and internal control through an Audit and Finance Committee. This Committee meets regularly with management and the auditor to discuss internal controls, audit findings and the resulting opinion on the adequacy of internal controls, and the quality of financial reporting issues. The auditors have access to the Audit and Finance Committee, without management present, to discuss the results of their work.

The accompanying financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor General's examination and opinion.



David Field
President & Chief Executive Officer



Louis Dimitracopoulos
Chief Administrative Officer & Vice President

June 7, 2019



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To Legal Aid Ontario

Opinion

I have audited the financial statements of Legal Aid Ontario (LAO), which comprise the balance sheet as at March 31, 2019 and the statements of operations, changes in net assets (deficit) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LAO as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the LAO in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

In preparing the financial statements, management is responsible for assessing the LAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the LAO either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the LAO's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 LAO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the LAO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the LAO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Toronto, Ontario
June 7, 2019

Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Balance Sheet

ASSETS	March, 31 2019 (\$000's)	March, 31 2018 (\$000's)
Current assets		
Cash and cash equivalents	\$ 24,328	\$ 21,722
Investments (note 4)	25,265	20,196
Prepaid expenses and other assets	2,712	2,870
Client accounts receivable (note 3(a))	10,031	11,905
Other receivables (note 3(b))	18,900	13,806
	\$ 81,236	\$ 70,499
Long-term client accounts receivable (note 3(a))	19,886	17,445
Capital net assets (note 5)	2,917	3,619
TOTAL ASSETS	\$ 104,039	\$ 91,563

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 103,606	\$ 104,291
Long Term Liabilities		
Accrued pension liability (note 10)	\$ 2,230	\$ 2,236
Net Assets (Deficit)		
Net accumulated deficit	\$ (4,714)	\$ (18,583)
Invested in capital assets (note 7)	2,917	3,619
	(1,797)	(14,964)
TOTAL LIABILITIES AND NET ASSETS	\$ 104,039	\$ 91,563

On behalf of the board:



John McCamus
Chair, Legal Aid Ontario Board of Directors

Statement of Operations

For the year ended March 31

REVENUE	2019 (\$000's)	2018 (\$000's)
Total government funding (notes 1(a), 1(b))	\$ 404,991	\$ 428,016
Law Foundation of Ontario	79,031	46,916
Client contributions	9,571	10,742
Client and other recoveries	1,048	1,081
Investment income (note 4)	872	415
Miscellaneous income	360	485
TOTAL REVENUE	\$ 495,873	\$ 487,655

EXPENSES (NOTE 2)

Client Programs		
Certificate Program		
Criminal – Big Cases	\$ 30,598	\$ 29,924
Criminal – Other	89,978	94,411
Sub-total	120,576	124,335
Family	71,147	75,545
Immigration and refugee	25,289	25,128
Other civil	7,996	7,362
Sub-total	225,008	232,370
Settlement conferences	199	222
Family law offices	6,274	6,107
Integrated law offices	4,801	4,314
Criminal law offices	2,108	2,248
Refugee law office	3,971	4,246
Articling students	821	1,355
Nishnawbe-Aski Legal Service Corporation	1,960	1,901
Certificates	245,142	252,763

Statement of Operations (continued)
For the year ended March 31

	2019 (\$000's)	2018 (\$000's)
EXPENSES (continued)		
Duty counsel program		
Duty counsel fees and disbursements	58,247	53,974
Expanded duty counsel	2,523	2,107
Sub-total	60,770	56,081
Clinic program and special services		
Clinic law services (note 8)	91,459	80,113
Student legal aid services societies	5,609	4,796
Clinic information management project	1,623	912
Sub-total	98,691	85,821
Special innovation projects		
Other	2,252	2,152
Sub-total	2,252	2,152
Program support		
Regional operations	2,684	2,656
District/Area office services	15,260	14,349
Client and Legal Service Centre	9,653	8,923
Sub-total	27,597	25,928
TOTAL CLIENT PROGRAMS	434,452	422,745
Service provider support		
Research facilities	4,005	3,767
Lawyers' services and payments	3,062	2,654
Sub-total	7,067	6,421
Administrative and other costs		
Provincial office	38,001	36,355
Amortization	1,610	2,700
Bad debts	1,576	7,987
Sub-total	41,187	47,042
TOTAL EXPENSES	\$ 482,706	\$ 476,208
Excess of revenues over expenses for the year	\$ 13,167	\$ 11,447

Statement of changes in net assets (deficit)

For the year ended March 31

(\$000's)	Invested capital assets (note 7)	Accumulated deficit	2019 total	2018 total
Net assets (deficit), beginning of year	\$ 3,619	\$ (18,583)	\$ (14,964)	\$ (26,411)
Net change in capital assets	(702)	702	–	–
Excess of revenues over expenses for the year	–	13,167	13,167	11,447
Net assets (deficit), end of year	\$ 2,917	\$ (4,714)	\$ (1,797)	\$ (14,964)

Statement of cash flows

For the year ended March 31

Cash provided by (used in)	2019 (\$'000's)	2018 (\$'000's)
OPERATING ACTIVITIES		
Excess of revenues over expenses for the year	\$ 13,167	\$ 11,447
Non-cash operating activity:		
Amortization of capital assets	1,610	2,700
Changes in non-cash balances:		
Accrued pension liability	(6)	(17)
Accrued interest on investments	(18)	(168)
Prepaid expenses and other assets	158	(381)
Client accounts receivable	1,874	2,393
Other receivables	(5,094)	2,183
Long-term client accounts receivable	(2,441)	2,679
Accounts payable and accrued liabilities	(685)	13,017
	\$ 8,565	\$ 33,853
INVESTING ACTIVITIES		
Redemption of Investment	\$ 31,000	\$ 5,000
Purchase of Investment	(36,051)	(20,000)
	(5,051)	(15,000)
CAPITAL ACTIVITIES		
Purchase of capital assets	\$ (908)	\$ (1,833)
Net increase in cash and cash equivalents during the year	2,606	17,020
Cash and cash equivalents, beginning of year	21,722	4,702
Cash and cash equivalents, end of year	\$ 24,328	\$ 21,722

Notes to Financial Statements

March 31, 2019

NATURE OF OPERATIONS

On December 18, 1998, the Ontario Legislative Assembly enacted the *Legal Aid Services Act, 1998* whereby Legal Aid Ontario (“LAO” or the “Corporation”) was incorporated without share capital under the laws of Ontario. The Corporation began operations on April 1, 1999 and is tax exempt under the *Income Tax Act (Canada)*.

The *Legal Aid Services Act, 1998* establishes the following mandate for the Corporation:

- To promote access to justice throughout Ontario for low-income individuals by providing high quality legal aid services
- To encourage and facilitate flexibility and innovation in the provision of legal aid services
- To recognize the diverse legal needs of low-income individuals and disadvantaged communities
- To operate within a framework of accountability for the expenditure of public funds

The affairs of the Corporation are governed and managed by a Board of Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Ontario, it is accountable for the expenditure of public funds and for the provision of legal aid services in a manner that both meets the needs of low-income individuals and is cost-effective and efficient.

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with the Public Sector Handbook “PS” of the Chartered Professional Accountants of Canada including the standards for government not-for-profit organizations included in PS 4200 to PS 4270, which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada and includes the significant accounting policies summarized below.

FINANCIAL INSTRUMENTS

Financial instruments are classified in one of the following categories (i) fair value or (ii) cost or amortized cost. The entity determines the classification of its financial instruments at initial recognition.

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds and any investments in fixed income securities that the Corporation designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations in the period during which they are incurred. Investments reported at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the statement of remeasurement gains and losses and are cumulatively reclassified to the statement of operations upon disposal or settlement.

Investments in fixed income securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the straight-line method, less any provision for impairment.

All investment transactions are recorded on a trade date basis.

Other financial instruments, including client accounts receivable and accounts payable and accrued liabilities, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

REVENUE RECOGNITION

The Corporation follows the deferral method of accounting for contributions.

Externally restricted contributions are deferred when initially recorded and recognized as revenue in the year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when initially recorded in the accounts if the amount to be received can be reasonably estimated and collection is reasonably assured. Due to uncertainty surrounding the amounts to be billed, client contributions are recognized as revenue when the Corporation accrues a lawyer's invoice on behalf of a client. Judgments awards, costs and settlements on behalf of legal aid clients are recognized as revenue when awarded.

Investment income, which consists of interest, is recorded in the statement of operations as earned.

EXPENSE RECOGNITION

Expenses are recognized on an accrual basis. Certificate program costs include amounts billed to the Corporation by lawyers and an estimate of amounts for work performed by lawyers but not yet billed to the Corporation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, balances with financial institutions and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of typically less than a year.

CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful life of the asset as follows:

Furniture and office equipment	5 years
Computer hardware	3 years
Enterprise-wide software	3 – 7 years
Leasehold improvements	Over the term of the lease

EMPLOYEE BENEFIT PLANS

The Corporation accrues its obligations under a defined benefit employee plan and the related costs. The cost of post-employment benefits earned by employees is actuarially determined using the projected unit credit actuarial cost method prorated on service and management's best estimate assumptions. Actuarial gains (losses) are amortized on a straight-line basis over the estimated average remaining service period of the active employees. Past service costs are expensed when incurred. Liabilities are measured using a discount rate determined by reference to the Corporation's cost of borrowing. Contributions to the defined contribution pension plan are recorded on an accrual basis.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available. Significant estimates in the financial statements include the allowance for client accounts receivable, accruals related to legal work performed but not yet billed and accrued employee benefits.

1. Government funding

Section 71 of the *Legal Aid Services Act, 1998* requires the Corporation and the Attorney General of Ontario (the Attorney General) to enter into a Memorandum of Understanding (“MOU”) every five years. The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between the Ministry of the Attorney General (“MAG”) and the Corporation. The most recent MOU was signed on November 12, 2014.

- a. The Corporation is economically dependent on the Province of Ontario – Ministry of the Attorney General. During the year, the Treasury Board reduced the base funding allocation to LAO, by \$44.2 million. Part of the government funding is for the Financial Eligibility (FE) program, and all amounts received have been spent. It is not expected that this program will be funded in future years. Total contributions recognized are as shown below:

	2019 (\$000's)	2018 (\$000's)
Total government funding (note 1)	\$ 404,991	\$ 428,016

- b. Included in total government funding for the year ended March 31, 2019 is an amount of \$64.3 million (2018 – \$62.6 million) representing an allocation of funds based on an agreed cost-sharing arrangement between the Federal Government and the Province in connection with criminal law (\$47.4 million), under the *Youth Criminal Justice Act*; Immigration and Refugee (\$16.9 million).
- c. Subsection 66(3) of the *Legal Aid Services Act, 1998* allows the Corporation to allocate any surplus or deficit in a fiscal year to either or both of the two subsequent fiscal years with the approval of the Attorney General, unless, under Subsection 69(2), it is ordered by the Minister of Finance to pay its surplus into the Consolidated Revenue Fund.

2. Expenses by object

The table below provides totals for each expense category:

	2019 (\$000's)	2018 (\$000's)
Certificates	223,118	230,768
Duty counsel per diem	23,723	22,030
Clinic funding	97,996	84,230
Other transfer payments	1,960	1,901
Salaries and benefits	110,000	102,712
Leases	4,997	4,912
Bad debts, depreciation and other expenses	20,912	29,655
	\$ 482,706	\$ 476,208

Expenses by object summarizes the total salaries, benefits and administrative amounts. The Statement of Operations, shows program funding which includes salaries, benefits and other expenses.

3. Accounts receivable

a. Client accounts receivable

The Corporation has a client contribution program for legal aid applicants who do not meet the Corporation's financial eligibility requirements for certificates, to receive free legal services. These applicants receive the assistance they need by entering into a contribution agreement, where they undertake to repay the Corporation over time for the services provided to them. Contribution agreements may include monthly payments and/or liens on property.

March 31,
2019
(\$000's)

	Total	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
Client accounts receivable	\$ 58,801	\$ 313	\$ 111	\$ 179	\$ 58,198
Less: impairment allowance	(28,884)	(169)	(59)	(110)	(28,546)
	\$ 29,917	\$ 144	\$ 52	\$ 69	\$ 29,652

March 31,
2019
(\$000's)

	Total	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
Client accounts receivable	\$ 61,382	\$ 144	\$ 470	\$ 111	\$ 60,657
Less: impairment allowance	(32,032)	(57)	(189)	(54)	(31,732)
	\$ 29,350	\$ 87	\$ 281	\$ 57	\$ 28,925

Represented by:	2019 (\$000's)	2018 (\$000's)
Current (non-lien) client accounts receivable	10,031	11,905
Long-term (lien) client accounts receivable	19,886	17,445
	\$ 29,917	\$ 29,350

3. Accounts receivable (continued)

b. Other receivables

Other receivables are comprised of amounts due from the Law Foundation of Ontario, Canada Revenue Agency for Harmonized Sales Taxes (HST) rebate, and both the Federal Department of Justice (“DOJ”) and MAG for protocol cases.

March 31,
2019
(\$000's)

	Total	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
MAG protocol cases	\$ 5,353	\$ 685	\$ 727	\$ 441	\$ 3,500
DOJ protocol cases	361	111	150	100	–
HST receivable	3,336	3,336	–	–	–
Law Foundation of Ontario	9,589	9,589	–	–	–
Other receivables	261	–	–	–	261
Total other receivables	\$ 18,900	\$ 13,721	\$ 877	\$ 541	\$ 3,761

March 31,
2018
(\$000's)

	Total	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days
MAG protocol cases	\$ 3,754	\$ 1,727	\$ –	\$ –	\$ 2,027
DOJ protocol cases	363	–	–	363	–
HST receivable	3,073	3,073	–	–	–
Law Foundation of Ontario	6,300	6,300	–	–	–
Other receivables	316	–	–	–	316
Total other receivables	\$ 13,806	\$ 11,100	\$ –	\$ 363	\$ 2,343

4. Investments

	2019 (\$000's)	2018 (\$000's)
Guaranteed investment certificates	\$ 25,051	\$ 20,000
Accrued interest	214	196
	\$ 25,265	\$ 20,196

The Corporation has developed an investment policy in accordance with the statutory requirements outlined in Sections 7(1), 7(2), 7(3) and 7(4) of Ontario Regulation 107/99 made under the *Legal Aid Services Act, 1998*. The Corporation's short-term and long-term investment policy is to invest in highly liquid investments in Canadian federal government securities, Canadian provincial government securities or other guaranteed investment certificates issued or guaranteed by Canadian financial institutions with a rating of A or above. The investments held by the Corporation as at March 31, 2019 are in compliance with the statutory requirements. Short-term investments held of \$25.0 million (2018 – \$20.0 million) are invested at various rates up to prime less 2.45% and one at a fixed rate of 1.4%.

The Corporation earned investment income of \$0.9 million in 2019 (2018 – \$0.4 million).

5. Capital assets

	2019 (\$000's)		2018 (\$000's)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and office equipment	\$ 199	\$ 92	\$ 114	\$ 91
Computer hardware	2,211	1,323	3,723	2,629
Leasehold improvements	4,320	2,419	8,019	5,573
Enterprise-wide software	17,913	17,892	17,938	17,882
	\$ 24,643	\$ 21,726	\$ 29,794	\$ 26,175
Net book value		\$ 2,917		\$ 3,619

6. Accounts payable and accrued liabilities

	2019 (\$000's)	2018 (\$000's)
Legal accounts		
Accruals for billings received but not paid	\$ 15,818	\$ 22,233
Estimate for work performed but not yet billed	73,900	68,900
Rent inducements	2,039	1,613
Trade and other payables	8,374	8,644
Vacation pay	3,475	2,901
	\$ 103,606	\$ 104,291

7. Invested in capital assets

Invested in capital assets represents the amount of net assets that are not available for other purposes because they have been used to fund the purchase of capital assets. Changes in net assets invested in capital assets during the year consist of the following:

	2019 (\$000's)	2018 (\$000's)
Balance, beginning of year	\$ 3,619	\$ 4,486
Purchase of capital assets	908	1,833
Amortization	(1,610)	(2,700)
Balance, end of year	\$ 2,917	\$ 3,619

8. Clinic law services

The Corporation provides funding to community clinics, enabling them to provide poverty law services to the community they serve on a basis other than fee for service. The community clinics are organizations structured as corporations without share capital and are governed and managed by a board of directors. Community clinics are independent from, but accountable to, the Corporation under Sections 33 to 39 of the *Legal Aid Services Act, 1998*. Each community clinic is independently audited and is required to provide audited financial statements to the Corporation for the funding period.

The total funding to community clinics consists of direct funding transfers and the cost of centrally provided support services.

	2019 (\$000's)	2018 (\$000's)
Payment to and on behalf of clinics	\$ 91,459	\$ 80,113

9. Commitments and contingencies

- a. The Corporation issues certificates to individuals seeking legal aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines. As at March 31, 2019, management estimates certificates in the amount of \$71.0 million (2018 – \$65.9 million) of authorized legal services could still be incurred on certificates issued on or before March 31, 2019 over and above the billings received to date.
- b. The Corporation leases a vehicle, equipment, and various office premises at locations throughout the province. The rent and estimated operating costs are based on existing lease agreements and charges for additional rent. Estimated lease expenses for the next five years and thereafter are as follows:

Year	Base rent (\$000's)	Operating costs (\$000's)	Vehicle & equipment (\$000's)	Total (\$000's)
2020	\$ 2,191	\$ 2,565	\$ 73	\$ 4,829
2021	1,769	2,272	69	4,110
2022	1,676	2,257	48	3,981
2023	1,493	2,123	32	3,648
2024	1,459	2,051	6	3,516
Thereafter	7,600	9,995	–	17,595
	\$ 16,188	\$ 21,263	\$ 228	\$ 37,679

- c. The Corporation is the defendant in a number of lawsuits arising in the ordinary course of business. The outcome and ultimate disposition of these actions are not known; however, based on the claims made, management estimates an amount of \$1.0 million (2018 – \$1.0 million) and made the necessary provision. Some of those lawsuits are covered by insurance after the application of a deductible of up to \$50 thousand, depending on when the event of the claim occurred and the nature of the claim.

10. Pensions

The Corporation has two pension plans providing retirement benefits for its employees. There are two components to the regular plan: a defined contribution and a defined benefit component. In addition, there is also a non-registered supplementary (executive) plan.

Defined Contribution Component

The defined contribution component of the plan covers 971 (2018 – 970) employees. Pension expense for the year relating to this component of the plan was \$7.5 million (2018 – \$7.1 million). LAO has now transitioned all employees to nine percent contribution of the employees' pensionable earnings and matches this contribution under this plan.

Defined Benefit Component

The defined benefit component of the plan covers a total of 16 employees; there are two (2) active participants (2018 – 3) and 14 retirees (2018 – 13). Actuarial gains (losses) are amortized on a straight-line basis over the estimated average remaining service period of the active employees, which is three years as at March 31, 2019 (2018 – three). Under this benefit plan, benefits at retirement are related to years of service and remuneration during the years of employment. The plan is subject to actuarial valuations for funding purposes at intervals of not more than three years. The last valuation was completed in January 1, 2017, the next actuarial valuation of the Plan for funding purposes will be prepared as at January 1, 2020. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

It was determined that a full valuation allowance is required against the defined benefit pension plan asset in accordance with public sector accounting standards. For this year the valuation allowance reflects an increase of \$0.1 million.

The Corporation measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

	2019 (\$000's)	2018 (\$000's)
Accrued benefit obligation	\$ 3,606	\$ 3,609
Fund assets at market value	4,422	4,332
Funded status – plan surplus	816	723
Unamortized net actuarial loss (gain)	(56)	(43)
Net pension asset	760	680
Valuation allowance, beginning of year	(680)	(606)
(Increase) decrease valuation allowance	(80)	(74)
Valuation allowance, end of year	\$ (760)	\$ (680)

10. Pensions (continued)

The expense related to the Corporation's defined benefit component of the plan consists of the following:

	2019 (\$000's)	2018 (\$000's)
Current period benefit cost	\$ 18	\$ 26
Amortization of actuarial losses (gains)	4	(20)
Interest revenue	(39)	(39)
	\$ (17)	\$ (33)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation and benefit expense are as follows:

	2019	2018
Accrued benefit obligation		
Discount rate	5.25%	5.25%
Rate of compensation increase	3.00%	3.00%
Benefit expense		
Discount rate	5.25%	5.25%
Expected long-term rate of return on plan assets	5.25%	5.25%
Rate of compensation increase	3.00%	3.00%

Other information about the defined benefit plan is as follows:

	2019 (\$000's)	2018 (\$000's)
Employer contributions	\$ 64	\$ 40
Employee contributions	7	10
Benefits paid	213	188

10. Pensions (continued)

Supplementary Executive Benefit Plan

The Board of the Corporation approved the establishment of a supplementary executive benefit plan for a designated executive member. Under the plan, benefits at retirement are related to years of service and remuneration during the years of employment. The plan is unfunded and the benefits will be paid by the Corporation as they become due. The accounting valuation for the unfunded retirement plan has been performed as at March 31, 2019.

The significant actuarial assumptions adopted in measuring the accrued benefit obligation and expense for the year are as follows:

	2019	2018
Discount rate	4.00%	4.00%
Inflation	1.50%	1.50%

The Corporation's pension expense for the year for this plan was \$0.10 million (2018 – \$0.10 million). The accrued benefit obligation and the accrued benefit liability as of March 31, 2019 was \$2.23 million (2018 – \$2.24 million). During the year, the Corporation made \$0.10 million (2018 – \$0.10 million) payments to the plan. Benefits to the retiree began on April 1, 2016.

	2019 (\$000's)	2018 (\$000's)
Supplementary Executive Benefit Plan	(2,230)	(2,236)

11. Contingency reserve

Section 66(4) of the *Legal Aid Services Act, 1998*, requires the Corporation to maintain a contingency reserve fund as prescribed by Section 6 of Ontario Regulation 107/99. This fund was established on April 1, 1999 with a balance of \$20 million, which was funded by the Corporation. The Regulation also requires the Corporation to obtain advance approval from the Attorney General for any withdrawal beyond \$5 million of this capital amount and for the Corporation to provide the reason why the withdrawal is needed, a schedule for repayment, and a statement of the Corporation's plans for preventing a similar need from arising in the future. The \$20.0 million was fully depleted in fiscal year 2017.

12. Financial instruments

The Corporation is exposed to various financial risks through transactions in financial instruments.

Credit risk

The Corporation is exposed to credit risk in connection with its accounts and other receivables and its fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable is recorded net of any allowances for impairment (note 3).

Liquidity risk

The Corporation is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation derives a significant portion of its operating revenue from the Ontario government and other funders with no firm commitment of funding in future years. To manage liquidity risk, the Corporation keeps sufficient resources readily available to meet its obligations.

Interest rate risk

The Corporation is exposed to interest rate risk with respect to its investments held at variable interest rates.

At year end LAO had \$25.0 million (2018 – \$20.0 million) invested in Guaranteed Investment Certificates (GIC), at rates of up to prime minus 2.35% with maturity dates to January, 2020.

13. Comparative figures

Certain prior year figures may have been reclassified in order to conform to the current year's presentation.

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