

LEGAL AID ONTARIO
**AUDITED
FINANCIAL
STATEMENTS
2022 - 2023**



LEGAL AID ONTARIO

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**Legal Aid Ontario
Financial Statements
For the year ended March 31, 2023**

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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 and
Chief Executive Officer

June 27, 2023



Jennifer Ankrett
Chief Administrative Officer
and Vice President

June 27, 2023



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 statement of financial position as at March 31, 2023, 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 LAO as at March 31, 2023, 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 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 LAO either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing 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 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 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 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 27, 2023



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

Legal Aid Ontario

Statement of Financial Position

	March 31, 2023 (\$000's)	March 31, 2022 (\$000's)
ASSETS		
Current Assets		
Cash (Note 14)	\$ 109,241	\$ 52,529
Investments (Note 5)	-	51
Prepaid expenses and other assets	3,195	2,578
Client accounts receivable, net of allowance (Note 4(a))	1,076	5,160
Other receivables (Note 4(b))	69,004	14,420
	182,516	74,738
Long-term client accounts receivable, net of allowance (Note 4(a))	14,221	15,946
Capital assets (Note 6)	6,420	6,317
	203,157	97,001
TOTAL ASSETS	\$ 203,157	\$ 97,001
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 97,838	\$ 99,412
Deferred capital contributions (Note 8)	4,863	6,173
	102,701	105,585
Long-Term Liabilities		
Accrued pension liability (Note 12)	2,864	2,772
	2,864	2,772
Net Assets (Deficit)		
Unrestricted Net Assets (Deficit)	76,035	(11,500)
Invested in Capital Assets (Note 9)	1,557	144
Contingency Reserve Fund (Note 14)	20,000	-
	97,592	(11,356)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 203,157	\$ 97,001



Steve Pengelly, Chair

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

Legal Aid Ontario

Statement of Operations

For the year ended March 31

2023
(\$000's) **2022**
(\$000's)

REVENUE

Government funding (Notes 1(a, b and c))	\$ 331,629	\$ 380,749
The Law Foundation of Ontario funding	231,787	44,585
Protocol Cases (Note 2)	8,367	7,485
Client contributions	2,363	5,339
Client and other recoveries	2,188	2,046
Investment income (Note 5)	1,008	154
Miscellaneous income	402	888
	\$ 577,744	\$ 441,246

EXPENSES (Note 3)

Client Programs

Certificate Program

Criminal - Big cases	\$ 23,552	\$ 23,002
Criminal - Others	73,075	76,599
Sub-total	96,627	99,601
Family	56,897	66,469
Immigration and refugee	25,157	21,130
Other civil	9,810	9,159
Sub-total	188,491	196,359
Protocol Cases (Note 2)	8,060	7,485
Settlement conferences	176	197
Family law offices	6,135	5,706
Integrated law offices	4,241	4,291
Criminal law offices	3,636	3,276
Refugee law office	4,138	3,747
Articling students	58	-
Nishnawbe-Aski Legal Services Corporation	2,983	2,295
	217,918	223,356

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

Legal Aid Ontario

Statement of Operations

For the year ended March 31	2023 (\$000's)	2022 (\$000's)
Staff Services Office		
Duty counsel fees and disbursements	59,703	54,455
Expanded duty counsel	3,476	3,232
Sub-total	63,179	57,687
Clinic Services		
Clinic law services (Note 10)	95,507	91,323
Student legal aid services societies	5,491	5,403
Clinic information management project	808	1,056
Sub-total	101,806	97,782
Service Innovation Projects		
Other	\$ 1,813	\$ 2,103
Program Support		
Regional operations	\$ 2,256	\$ 2,314
District/Area office services	12,835	12,275
Client and legal service centre	13,325	12,307
Sub-total	28,416	26,896
TOTAL CLIENT PROGRAMS	413,132	407,824

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

Legal Aid Ontario Statement of Operations

For the year ended March 31	2023 (\$000's)	2022 (\$000's)
Service Provider Support		
Research facilities	3,339	3,426
Lawyers' services and payments	5,429	4,856
Sub-total	8,768	8,282
Administrative and Other Costs		
Provincial office	40,222	34,645
Amortization	2,680	1,531
Loss on disposal of capital assets	547	-
Bad debts	3,447	3,256
Sub-total	46,896	39,432
TOTAL EXPENSES	468,796	455,538
Excess (deficiency) of revenue over expenses for the year	\$ 108,948	\$ (14,292)

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

Legal Aid Ontario

Statement of Changes in Net Assets (Deficit)

For the year ended March 31, 2023

(\$000's)	Invested Capital Assets Note 9	Unrestricted	Contingency Reserve Fund	2023 Total	2022 Total
Net assets (deficit), beginning of year	\$ 144	\$ (11,500)	\$ -	\$ (11,356)	\$ 2,936
Net change in capital assets	103	(103)	-	-	-
Deferred capital contributions	1,310	(1,310)	-	-	
Excess (deficiency) of revenues over expenses for the year	-	108,948	-	108,948	(14,292)
Transfer to contingency reserve fund (Note 14)	-	(20,000)	20,000	-	-
Net assets (deficit), end of year	\$ 1,557	\$ 76,035	\$ 20,000	\$ 97,592	\$ (11,356)

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

Legal Aid Ontario

Statement of Cash Flows

For the year ended March 31	2023 (\$000's)	2022 (\$000's)
Cash provided by (used in):		
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses for the year	\$ 108,948	\$ (14,292)
Non-cash operating activity:		
Amortization of capital assets	2,680	1,531
Amortization of deferred capital contributions	(1,310)	(608)
Loss on disposal of capital assets	547	-
Changes in non-cash balances:		
Accrued pension liability	92	488
Accrued interest on investments	-	108
Prepaid expenses and other assets	(617)	150
Client accounts receivable	4,084	3,180
Other receivables	(54,584)	(3,259)
Long-term client accounts receivable	1,725	1,676
Accounts payable and accrued liabilities	(1,574)	3,182
	59,991	(7,844)
INVESTING ACTIVITIES		
Redemption of Investment	51	25,000
Deferred capital contributions	-	6,781
	51	31,781
CAPITAL ACTIVITY		
Purchase of capital assets	(3,330)	(5,501)
Net increase in cash during the year	56,712	18,436
Cash, beginning of year	52,529	34,093
Cash, end of year	\$ 109,241	\$ 52,529

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

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

NATURE OF OPERATIONS

On December 18, 1998, the Ontario Legislative Assembly enacted the *Legal Aid Services Act, 1998* whereby Legal Aid Ontario (LAO) was incorporated without share capital under the laws of Ontario. LAO began operations on April 1, 1999 and is tax exempt under the *Income Tax Act* (Canada). In October 2021, the new *Legal Aid Services Act, 2020* was proclaimed and currently sets out the legal authority of Legal Aid Ontario.

The *Legal Aid Services Act, 2020* establishes the following mandate for LAO:

- Establish and administer a flexible and sustainable system for providing legal aid services to individuals in Ontario
- Establish policies and priorities for the provision of legal aid services based on its financial resources
- Facilitate co-ordination among the different legal aid services that are provided and the manners in which they are provided
- Monitor and supervise the provision of legal aid services in Ontario
- Advise the Minister on all aspects of legal aid services in Ontario including any features of the justice system that affect or may affect the demand for or quality of legal aid services

The affairs of LAO are governed and managed by a Board of Directors appointed by the Lieutenant Governor in Council. While LAO operates independently from the Province of Ontario and the Law Society of Ontario, it is accountable to the Government of Ontario, 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.

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

FINANCIAL INSTRUMENTS

LAO's financial instruments consist of cash, investments, client accounts receivable, other receivables, and accounts payable and accrued liabilities.

Financial instruments are recorded at fair value on initial recognition. LAO's financial instruments are subsequently measured as follows:

Assets/Liabilities	Measurement
Cash	Amortized Cost
Investments	Amortized Cost
Client accounts receivable	Amortized Cost
Other receivables	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost

All financial assets are tested annually for impairment. In the event that there are any impairments of financial assets, the losses are recorded in the Statement of Operations.

REVENUE RECOGNITION

LAO follows the deferral method of accounting for contributions.

Provincial grants restricted for the purchase of capital assets are deferred and amortized into revenue over the same period as the related capital asset.

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 LAO records a lawyer's invoice on behalf of a client. Judgment 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.

Protocol case revenue is recognized when billings are received from the lawyers. Protocol cases are billings for cases that are assigned to LAO through the courts and recovered from Ministry of the Attorney General (MAG) and Department of Justice (DOJ).

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

EXPENSE RECOGNITION

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

CAPITAL ASSETS

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

Office furniture & equipment	- 5 years
Computer hardware	- 3 years
Leasehold improvement	- over the term of the lease
Enterprise-wide software	- 3-7 years

EMPLOYEE BENEFIT PLANS

LAO 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 LAO'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.

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

1. Government Funding

The Agencies and Appointments Directive requires LAO and the Ministry of the Attorney General (“MAG”) to enter into a Memorandum of Understanding (“MOU”). The purpose of the MOU is to clarify the operational, administrative, financial, and other relationships between MAG and LAO. Following the proclamation of the new *Legal Aid Services Act 2020*, LAO signed a new MOU on November 14, 2022.

- a. LAO is economically dependent on government funding and the Law Foundation of Ontario (“LFO”): the proportion of LAO’s revenue from these funds represented 57% (2022 - 86%) and 40% (2022 - 10%) respectively. Total contributions received from MAG and the Federal Government are as shown below:

	2023 (\$000’s)	2022 (\$000’s)
Government funding	<u>\$ 331,629</u>	<u>\$ 380,749</u>

- b. Included in government funding for the year ended March 31, 2023 is an amount of \$105.4 million (2022 - \$92.0 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 for \$61.2 million (2022 - \$55.1 million), under the *Youth Criminal Justice Act*; and \$44.2 million (2022 - \$36.9 million) for Immigration and Refugee cases.

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

2. Protocol Cases

	2023 (\$000's)	2022 (\$000's)
Provincial Protocol Revenue	\$ 8,015	\$ 7,252
Federal Protocol Revenue	352	233
Total	<u>\$ 8,367</u>	<u>\$ 7,485</u>
Provincial Protocol Costs	\$ 7,605	\$ 7,252
Federal Protocol Costs	455	233
Total	<u>\$ 8,060</u>	<u>\$ 7,485</u>

3. Expenses by Object

The table below provides totals for each expense category:

	2023 (\$000's)	2022 (\$000's)
Salaries and wages	\$ 100,357	\$ 94,303
Employee benefits	26,238	20,589
Transportation and communication	1,812	840
Services	223,857	227,302
Supplies and equipment	17,186	14,474
Amortization	2,680	1,530
Transfer payments - External (Clinics)	96,119	96,500
Loss on disposal of capital assets	547	-
	<u>\$ 468,796</u>	<u>\$ 455,538</u>

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

4. Accounts Receivable

(a) Client accounts receivable

LAO has a client contribution program for legal aid applicants who do not meet LAO'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 LAO over time for the services provided to them. Contribution agreements may include monthly payments and/or liens on property.

March 31, 2023 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 days
Client accounts receivable	\$ 44,713	\$ 34	\$ 134	\$ 35	\$ 44,510
Less: impairment allowance	\$ (29,416)	(12)	(53)	(19)	(29,332)
	\$ 15,297	\$ 22	\$ 81	\$ 16	\$ 15,178

March 31, 2022 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 days
Client accounts receivable	\$ 49,509	\$ 109	\$ 288	\$ 111	\$ 49,001
Less: impairment allowance	(28,403)	(43)	(184)	(37)	(28,139)
	\$ 21,106	\$ 66	\$ 104	\$ 74	\$ 20,862

Represented by:	2023 (\$000's)	2022 (\$000's)
Current (non-lien) client accounts receivable	1,076	5,160
Long-term (lien) client accounts receivable	14,221	15,946
	\$ 15,297	\$ 21,106

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

4. 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, 2023 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 days
Federal I&R Funding	\$ 13,812	\$ 13,812	\$ -	\$ -	\$ -
MAG protocol cases	2,301	2,301	-	-	-
DOJ protocol cases	271	271	-	-	-
HST receivable	7,788	3,316	2,303	-	2,169
Law Foundation of Ontario	44,246	44,246	-	-	-
Other receivables	586	501	-	30	55
Total other receivables	\$ 69,004	\$ 64,447	\$ 2,303	\$ 30	\$ 2,224

March 31, 2022 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 days
MAG protocol cases	\$ 1,780	\$ 1,777	\$ -	\$ -	\$ 3
DOJ protocol cases	156	156	-	-	-
HST receivable	7,491	2,866	2,183	2,371	71
Law Foundation of Ontario	4,937	4,937	-	-	-
Other receivables	56	14	-	-	42
Total other receivables	\$ 14,420	\$ 9,750	\$ 2,183	\$ 2,371	\$ 116

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

5. Investments

	2023 (\$000's)	2022 (\$000's)
Guaranteed investment certificates	\$ -	\$ 51
Accrued interest	-	-
	<u>\$ -</u>	<u>\$ 51</u>

LAO'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. No investments were held in March 31, 2023 (2022 - \$0.051 million). LAO earned investment income of \$1.0 million in 2023 (2022 - \$0.2 million).

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

6. Capital Assets

2023 (\$000's)	Office furniture & equipment	Computer hardware	Leasehold improvement	Enterprise wide software	Total
Cost					
Balance, open	\$ 152	\$ 2,554	\$ 2,292	\$ 20,380	\$ 25,378
Additions	10	826	-	2,494	3,330
Disposals	(17)	(500)	(1,311)	-	(1,828)
Balance, close	<u>145</u>	<u>2,880</u>	<u>981</u>	<u>22,874</u>	<u>26,880</u>
Accumulated Amortization					
Balance, open	92	1,274	1,397	16,298	19,061
Amortization	31	775	174	1,700	2,680
Disposals	(10)	(500)	(771)	-	(1,281)
Balance, close	<u>113</u>	<u>1,549</u>	<u>800</u>	<u>17,998</u>	<u>20,460</u>
Net book value	<u><u>\$ 32</u></u>	<u><u>\$ 1,331</u></u>	<u><u>\$ 181</u></u>	<u><u>\$ 4,876</u></u>	<u><u>\$ 6,420</u></u>

2022 (\$000's)					
Cost					
Balance, open	\$ 145	\$ 2,101	\$ 2,663	\$ 15,628	\$ 20,537
Additions	7	742	-	4,752	5,501
Disposals	-	(289)	(371)	-	(660)
Balance, close	<u>152</u>	<u>2,554</u>	<u>2,292</u>	<u>20,380</u>	<u>25,378</u>
Accumulated Amortization					
Balance, open	62	920	1,580	15,628	18,190
Amortization	30	643	188	670	1,531
Disposals	-	(289)	(371)	-	(660)
Balance, close	<u>92</u>	<u>1,274</u>	<u>1,397</u>	<u>16,298</u>	<u>19,061</u>
Net book value	<u><u>\$ 60</u></u>	<u><u>\$ 1,280</u></u>	<u><u>\$ 895</u></u>	<u><u>\$ 4,082</u></u>	<u><u>\$ 6,317</u></u>

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

7. Accounts Payable and Accrued Liabilities

	2023	2022
	(\$000's)	(\$000's)
Legal accounts		
- accruals for billings received but not paid	\$ 15,713	\$ 17,208
- estimate of work performed but not yet billed	68,081	69,100
Rent agreements	1,179	1,393
Trade and other payables	7,376	5,890
Vacation pay	5,489	5,821
	\$ 97,838	\$ 99,412

8. Deferred Capital Contributions

The change in the deferred contributions balance is as follows:

	2023	2022
	(\$000's)	(\$000's)
Balance, beginning of year	\$ 6,173	\$ -
Add: Contributions for capital assets	-	6,781
Less: Amount recognized as revenue in the year	(1,310)	(608)
	\$ 4,863	\$ 6,173

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

9. 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. Certain amounts in the prior year have been reclassified in order to conform to the current year's presentation. Changes in net assets invested in capital assets during the year consist of the following:

	2023	2022
	(\$000's)	(\$000's)
Balance, beginning of year	\$ 144	\$ 2,347
Purchase of capital assets	3,330	5,501
Loss on disposal of capital assets	(547)	-
Deferred capital contributions recognized in year	1,310	(6,173)
Amortization	<u>(2,680)</u>	<u>(1,531)</u>
Balance, end of year	<u>\$ 1,557</u>	<u>\$ 144</u>

10. Clinic Law Services

LAO 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, LAO under Section 5 of the *Legal Aid Services Act, 2020*. Each community clinic is independently audited and is required to provide audited financial statements to LAO for the funding period.

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

	2023	2022
	(\$000's)	(\$000's)
Payments to and on behalf of clients	<u>\$ 95,507</u>	<u>\$ 91,323</u>

Legal Aid Ontario

Notes to Financial Statements

March 31, 2023

11. Commitments and Contingencies

- a. LAO leases 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:

	Base rent (\$000's)	Operating costs (\$000's)	Equipment (\$000's)	Total (\$000's)
2024	\$ 2,014	\$ 1,944	\$ 38	\$ 3,996
2025	2,052	433	29	2,514
2026	1,663	164	26	1,853
2027	1,612	154	26	1,792
2028	1,112	149	18	1,279
Thereafter	800	805	-	1,605
	<u>\$ 9,253</u>	<u>\$ 3,649</u>	<u>\$ 137</u>	<u>\$ 13,039</u>

- b. LAO 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 \$0.8 million (2022 - \$0.4 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.
- c. A number of unions challenged the legality of *Protecting a Sustainable Public Sector for Future Generations Act, 2019* (the Act or Bill 124), which limited public sector wage increases to 1% per year for a three-year moderation period. The Superior Court of Justice, in a decision issued November 29, 2022, held that the Act violated the applicants' right to freedom of association under section 2(d) of the *Canadian Charter of Rights and Freedoms* by interfering with collective bargaining rights. As a result, it was declared to be "void and of no effect. The Ontario government has appealed the Superior Court's decision.

The likelihood, timing or extent of any potential liability is uncertain at this time.

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12. Pensions

LAO 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 969 (2022 - 924) employees. Pension expense for the year relating to this component of the plan was \$8.4 million (2022 - \$8.6 million).

Defined benefit component

The defined benefit component of the plan covers a total of 15 employees; there is 1 active participant (2022 - 1) and 14 retirees (2022 - 14). Actuarial gains (losses) are amortized on a straight-line basis over the estimated average remaining service period of the active employee, which is zero as at March 31, 2023. 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 2023, and the next actuarial valuation of the Plan for funding purposes will be prepared for the period ended January 1, 2026.

It was determined that a full valuation allowance is required against the defined benefit pension plan asset in accordance with public sector accounting standards. LAO measures its accrued benefit obligation for accounting purposes as at March 31 of each year.

	2023 (\$000's)	2022 (\$000's)
Accrued benefit obligation	\$ 3,604	\$ 3,469
Fund assets at market value	4,533	4,743
Funded status - plan surplus	929	1,274
Unamortized net actuarial loss (gain)	-	-
Net pension asset	929	1,274
Valuation allowance, beginning of year	(1,274)	(754)
(Increase) decrease valuation allowance	345	(520)
Valuation allowance, end of year	\$ (929)	\$ (1,274)

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12. Pensions (continued)

The expenses related to LAO's defined benefit component of the plan consists of the following:

	2023 (\$000's)	2022 (\$000's)
Current period benefit cost	\$ 8	\$ 8
Amortization of actuarial losses (gains)	410	(454)
Interest revenue	(67)	(67)
	\$ 351	\$ (513)

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

	2023	2022
Accrued benefit obligation		
Discount rate	5.25%	5.25%
Rate of compensation increase	3.00%	3.00%

	2023	2022
Benefit expense		
Discount rate	4.66%	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:

	2023 (\$000's)	2022 (\$000's)
Employer contributions	\$ 6	\$ 6
Employee contributions	3	3
Benefits paid	268	268

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12. Pensions (continued)

Supplementary Executive Benefit Plan

The Board of LAO 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 LAO as they become due. The accounting valuation for the unfunded retirement plan has been performed as at March 31, 2023.

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

	<u>2023</u>	<u>2022</u>
Discount rate	3.43%	2.60%
Inflation	3.30%	2.58%

LAO's pension expense for the year for this plan was \$0.18 million (2022 - \$0.18 million). The accrued benefit obligation and the accrued benefit liability as at March 31, 2023 was \$2.86 million (2022 - \$2.77 million). During the year, LAO made \$0.12 million (2022 - \$0.16 million) payments to the plan. Benefits to the retiree began on April 1, 2016.

	<u>2023</u>	<u>2022</u>
Accrued Pension Liability		
Supplementary executive benefit plan	<u>\$ 2,864</u>	<u>\$ 2,772</u>

March 31, 2023

13. Financial Instruments Risks

LAO is exposed to various risks through transactions in financial instruments and funding impacted by economic conditions.

Credit Risk

LAO 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 4 (a)).

Liquidity Risk

LAO has a limited risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. LAO has a sufficient cash reserve for the near term, but the historical variability of government funding and Law Foundation of Ontario revenue have the potential for future liquidity risk. To manage liquidity and ensure that LAO gets stable funding for future years, LAO is continuing to work closely with MAG to monitor financial performance and expected funding needs. If stable funding is unavailable, LAO's level of services to its clients may be impacted and reduced.

14. Contingency Reserve Fund

The *Legal Aid Services Act, 2020* came into force in October 2021. Section 28(3) of LASA 2020 requires LAO to maintain a contingency reserve fund in accordance with the regulations. Section 5 of Ontario Regulation 672/21 requires LAO to maintain and operate a contingency reserve fund in accordance with prescribed requirements, including that LAO shall, when it is able to do so without affecting the provision of legal aid services, pay capital amounts from its net accumulated surpluses into the fund. Under section 5.2, the total capital amount of the fund shall not exceed \$20,000,000. At March 31, 2023, LAO has allocated \$20,000,000 to the Contingency Reserve Fund (2022 - \$nil). As at March 31, 2023, included in the cash balance is \$20,000,000 (2022- \$Nil) to reflect the amount restricted for the Contingency Reserve Fund.

Pursuant to Section 5.4 of O. Reg. 672/21, LAO may, subject to section 5.5, withdraw capital amounts from the fund for the purpose of covering its operating expenses. Section 5.5 states that LAO "shall not withdraw capital amounts of a total amount that exceeds \$1,000,000 in a fiscal year without the Minister's approval." Section 5.7 of O. Reg. 672/21 requires LAO to notify the Minister of each withdrawal of capital. However, under section 5.8, LAO may, without notice to the Minister, withdraw interest or investment income from the fund at any time for the purpose of providing legal aid services.

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15. Comparative Figures

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

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