

Legal Aid Ontario 2015/16 Annual Report



Legal Aid Ontario

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Legal Aid Ontario receives financial assistance from the Government of Ontario.

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Letter to the Minister

July 2, 2016

The Honourable Yasir Naqvi
Attorney General of Ontario
720 Bay Street, 11th floor
Toronto, Ontario M5G 2K1

Dear Minister,

Please accept, in accordance with Section 72 of the *Legal Aid Services Act, 1998*, Legal Aid Ontario's (LAO) annual report for the year ended March 31, 2016.

On behalf of the people of Ontario, we thank you, your ministry and the Government of Ontario for your ongoing support of LAO and its mission to provide fair and equal access to justice for low-income Ontarians.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John D. McCamus". The signature is fluid and cursive, with the first name "John" and last name "McCamus" clearly distinguishable.

John D. McCamus
Chair
Legal Aid Ontario

About LAO

We provide legal services for financially eligible low-income Ontarians in the areas of family law, refugee and immigration law, criminal law and clinic law.

Legal aid services

- **In court.** Duty counsel are lawyers who can quickly assess a client's legal problems and provide advice, information and, in some cases, representation to someone who would otherwise be unrepresented and unassisted in the courtroom.
- **Over the phone.** Toll-free services include information, referral, legal aid applications and advice from a lawyer.
- **Representation by a private lawyer.** Financially eligible clients with legal matters covered by LAO may be able to apply for a certificate, which covers the cost of a lawyer for a certain number of hours.
- **Community legal clinics.** Clinics provide legal help for low-income people and communities with issues that involve basic needs such as access to housing, health care and education. Available services vary according to each clinic's resources.

Message from the Chair

As the Chair of LAO, I've had the opportunity to visit with many frontline workers in Ontario. You can clearly see the challenges that both clients and justice workers face—and continue to face—in the legal system.

Those of us who work in the justice sector have our own ideas about what needs to happen next. But it is also key that we hear directly from low-income Ontarians so we can start to figure out ways to make access to lawyers easier, how to communicate better, and how to tackle intersecting legal issues in a more coordinated fashion.

This past fiscal year, LAO was in the fortunate position of being able to not only continue to increase its financial eligibility thresholds, but to expand its legal eligibility as well. This meant that, for the first time in more than 25 years, 40 per cent more low-income Ontarians were now eligible for legal aid services.



Over the past year, LAO has begun to cover a wider range of legal initiatives to meet client needs, expand client-focused services and improve access to justice.

On behalf of the Board, I would like to thank LAO's staff and our many service providers in the private bar, community legal clinics and student legal aid services societies, for providing the means for low-income Ontarians to access justice. It is because of these individuals that we can come much closer to the ultimate goal of ensuring justice for all.

John McCamus
Chair
Legal Aid Ontario

Message from the CEO

Though I've only been LAO's President & CEO since the beginning of 2016, I've had the opportunity to bear witness to a very significant year in LAO's history as more Ontarians are now eligible for our services.

While LAO and its partners have made great strides in broadening access to justice for low-income Ontarians, there is always more that needs to be done. For anyone who has gone through a divorce or employment issue or dealt with a precarious immigration situation, it's clear the stress that any of these matters can bring.

At LAO, we know that there's great potential for us to further collaborate with our partners in the justice and social sectors. In the upcoming fiscal year, we will continue to place a focus on particularly vulnerable clients. We continue our work on our Aboriginal Justice Strategy and have just launched our Mental Health Strategy. We are slated to develop a Domestic Violence Strategy this year and are about to begin consultations on a Racialized Communities Strategy.



In looking at all of the areas of law that we cover, what does LAO need to do to ensure we continue to respond to the needs of our clients? We are looking into practical applications of how technology can be used to enhance our services. We are also strengthening our partnerships with community and social agencies to develop new ways to address client needs. And we build upon our strengths to move the organization forward.

We cannot provide these essential services without our staff, clinics, private bar lawyers, students and volunteers. On behalf of LAO, I thank them for their continued commitment to access to justice for our clients.

David Field
President and CEO
Legal Aid Ontario

Board

LAO's Board of Directors governs and manages the organization's affairs and is composed of people appointed by the Lieutenant Governor in Council.



From left to right: *Michelle Haigh, Michel Robillard, Christa Freiler, David Field, John McCamus, James N. Yakimovich, James McNee, W.A. Derry Millar, Carol L. Hartman, Nancy Cooper.* Not pictured: *John Liston, Timothy John Murphy.*

Name	Effective date	End date
John McCamus, Chair	July 2007	July 2016
Carol L. Hartman	Sept. 2015	Sept. 2017
Christa Freiler	July 2015	July 2017
James McNee	June 2008	Sept. 2018
James N. Yakimovich	June 2008	Sept. 2018
John Liston	March 2008	June 2017
Michel Robillard	July 2015	July 2017
Michelle Haigh	April 2011	April 2016
Nancy Cooper	Feb. 2009	Feb. 2017
Timothy John Murphy	March 2009	April 2018
W.A. Derry Millar	April 2011	July 2016
David Field, President/CEO/ <i>Ex Officio</i> board member	Jan. 2016	N/A

Committees

Advisory committees

- 90 members from the community
 - keep LAO informed about developments “on the ground”
 - help LAO plan initiatives and programs
- 8 advisory committees for:
 - Aboriginal issues
 - mental health law
 - prison law
 - family law
 - clinic law
 - criminal law
 - immigration and refugee law
 - French Language Services

Area committees

- 9 area committees to hear appeals related to decisions regarding client eligibility for legal aid certificates
- approximately 300 people, including lawyers and community representatives, are on these committees

Group applications and test case committee

- groups can apply for:
 - legal aid
 - representation at coroners’ inquests
 - test cases involving the Charter of Rights and Freedoms
- individuals or groups can apply for either:
 - funding
 - research support
 - coordination of linkages
 - partnerships
 - staff lawyer support
 - mentoring
- committee makes its decision based on:
 - strengths and weaknesses of legal matter
 - potential impact on low-income Ontarians

Exceptions committee

- comprised of experienced criminal lawyers
- recommends budget for big criminal cases that are anticipated to cost more than \$75,000

Year in review

2015

April

1st

LAO implemented the second **six per cent financial eligibility increase** for all legal aid services, making more low-income Ontarians eligible for publicly-funded legal representation.

21st

LAO implemented its **strengthened refugee and immigration panel standards** for all lawyers wishing to represent legally-aided clients. These standards ensure clients are able to access high quality legal aid providers.

12th

LAO made it **easier for people experiencing domestic violence**—regardless of immigration status in Canada—to get help from a lawyer by expanding the financial eligibility threshold. This takes into account any financial abuse that the client may be facing.

June

8th

For the first time in over 25 years, LAO started **offering more services** to cover a wider range of client needs, to expand client-focussed services, and to improve access to justice.

2nd

LAO expanded its **second chair program** to pre-approve selected senior lawyers for a defined number of hours to allow for the assistance of junior lawyers where appropriate in family law, refugee law, mental health law or medium to small criminal cases.

May

11th

LAO funded new community-based services to the members of **Grand Council Treaty #3**. The services include a *Gladue* caseworker program and an Aboriginal Alternative Dispute Resolution program.

14th

In a pilot project, LAO provided **Innocence Canada** with \$100,000 over two years to provide post-conviction legal services and education.

24th

LAO expanded **coverage in refugee and immigration law** by increasing tariff hours and broadening eligibility criteria.

30th

Twenty-seven community legal clinic projects received **\$3.75 million in special project funding** from LAO. The funds are helping clinic law service providers coordinate their services and resources with each other; modernizing and sustaining services; increasing the number of clients; and expanding the range of available services.

23rd

LAO started meeting with domestic violence survivors, partners in the Violence against Women community and other legal or community service providers to begin developing a strategy to **expand and improve legal aid services for domestic violence clients**.

24th

LAO announced the following **certificate coverage for immigration and refugee lawyers**: reopening applications at the Immigration and Refugee Board; Citizenship and Immigration Canada, Canada Border Security Agency and Canadian Security Intelligence Service interviews; preparation and representation for conditional permanent residents called to an interview or inquiry where the person is a victim of domestic violence.

August

7th

LAO expanded its **coverage for bail services** so that lawyers may bill for preparing and filing a bail variation; for a second bail hearing; for conducting and completing bail reviews.

July

6th

Low-income people living in either Thunder Bay or Fort William First Nation now have access to additional legal services at Lakehead University, which opened **Ontario's seventh Student Legal Aid Services Society**.

24th

LAO dedicated permanent funding for eligible clients to pursue an appeal through the **Refugee Appeal Division**. LAO will pay up to 16 hours for the preparation of written submissions. In the rare case that the Refugee Appeal Division calls for an oral hearing, LAO will pay up to four hours preparation time plus the time spent attending the Immigration Refugee Board.

29th

LAO invested an **additional \$1.5 million in community legal aid clinics** which had the fewest resources per low-income person in the 2015/16 fiscal year. This annual funding was added to the clinics' base funding. This support is on top of the additional \$2.4 million in funding that LAO provided for the 2014/15 fiscal year.

28th

LAO started offering **document preparation services for uncontested divorces** to clients in the Durham-Frontenac district.

September

21st

LAO increased the funding for each **Student Legal Aid Services Society** by \$100,000 annually.

October

13th

LAO started offering **appointment-based service at the Milton courthouse** where low-income people can meet with a lawyer for help with their criminal matters. If more time is required, clients who meet the financial eligibility test for duty counsel services can get legal advice specific to their court case.

17th

LAO made its formal submission on the issue of **carding and street checks** to the Ministry of Community Safety and Correctional Services, which is available on LAO's website.

24th

LAO's **Integrated Legal Service Office in Ottawa** was recognized by Immigrant Women Services Ottawa with a community leader award for its work with immigrant women experiencing domestic violence.

28th

LAO added a staff lawyer to its **Orangeville office** to provide increased services for people experiencing domestic violence in Dufferin County.

November

2nd

LAO announced it would issue **10 hour expedite legal aid certificates for Syrian claimants** who apply for Refugee Protection Division coverage.

18th

LAO announced it was providing refugee appellate panel lawyers **certificate coverage for merit assessments**.

December

4th

LAO launched the **Toronto East Employment Law Services initiative**, a one-year pilot program

featuring a lawyer and community worker to provide employment law services through Flemingdon Community Legal Services, East Toronto Community Legal Services, Scarborough Community Legal Services, Willowdale Community Legal Services, and Neighbourhood Legal Services.

16th

LAO launched a **mobile phone app** to help people determine whether they're financially eligible for a legal aid certificate. The app also provides applicants with real-time access to call centre wait times.

8th

The **Stratford Legal Aid Office** expanded its services by offering walk-in family law advice services on Wednesdays from 9 a.m. to 3 p.m.

18th

LAO expanded its **Alternative Fee Arrangement pilot project** so that more lawyers and firms could participate. Alternative Fee Arrangements are an alternative to hourly billing for lawyers or law firms where LAO provides monthly payments for a predetermined number and range of legal aid services to LAO clients.

2016

January

12th

LAO announced it would begin **covering meritorious habeas corpus applications** to the Ontario Court of Appeal for immigration detainees who have been in custody for 180 days or more.

18th

LAO's **2015 lawyer satisfaction survey** found that the percentage of lawyers who view LAO positively has increased in all areas, compared to 2014. For instance, 62.7 per cent of lawyers are happier with staff service, and 37.6 per cent are happier with billing, compared to 53.4 per cent and 29.9 per cent in 2014.

March

11th

LAO released its **Mental Health Strategy**, which outlines new programs and services to better help clients with mental health or addiction issues.

15th

LAO announced that **54 legal aid clinics will receive \$3.3 million in funding** from LAO in the next fiscal year to expand client services by collaborating between and among clinics and community organizations.

Client services

Telephone services

- Clients can call LAO's toll-free number to access a wide-range of general information, summary legal advice (SLA) and applications for legal aid in over 200 languages.
- People who have been arrested or detained can also get legal advice (whether or not they qualify for legal aid) by calling the LAO-funded Bridges Duty Counsel service, which is available 24/7.
- LAO also supports a toll-free diversion program hotline for young people aged 17 or younger accused of a non-violent crime. This service is available to inform young people, and their parents, about what to expect in the criminal justice system, including their chances of avoiding jail through alternative programs.

Calls are streamed into two tiers:

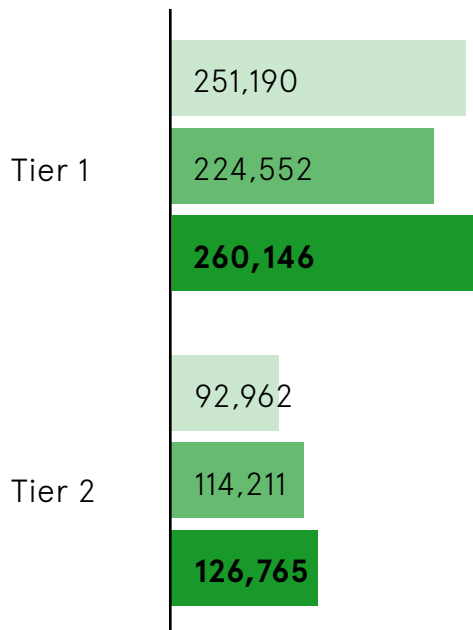
- **Tier 1:** clients are matched to the appropriate service and referred to other programs
- **Tier 2:** clients are assessed for financial eligibility, provided with legal information, or referred to staff lawyers for legal advice in family law, criminal law or immigration law. Clients can also apply for a legal aid certificate.

Summary legal advice

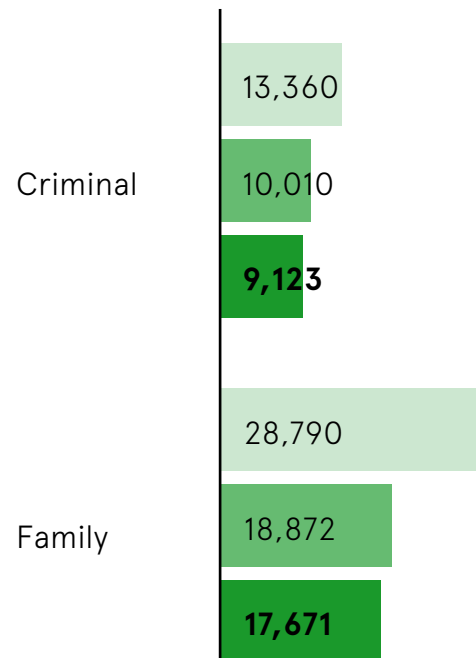
A client who is financially eligible who calls LAO's toll-free number can talk to a lawyer for up to 20 minutes, and receive advice on criminal or family issues as well as support to prepare for an in-person duty counsel visit.

Note: Immigration advice is not provided over the phone at this time. Applicants seeking immigration advice are now redirected for assistance.

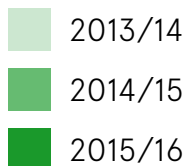
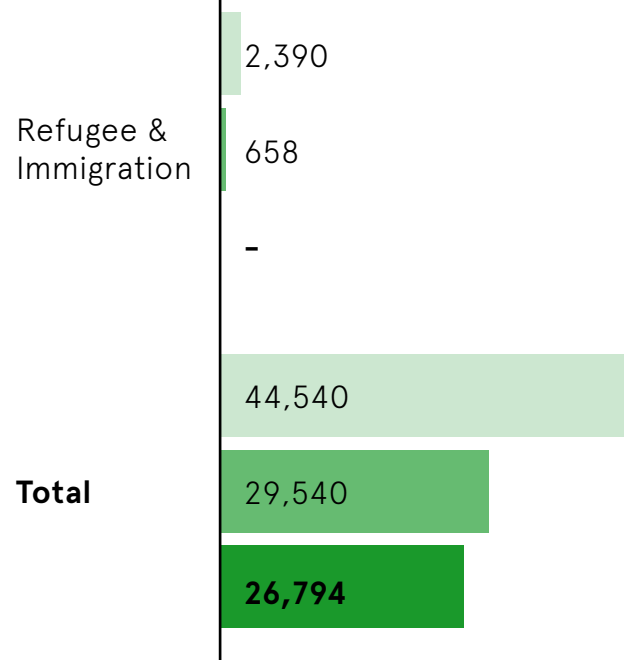
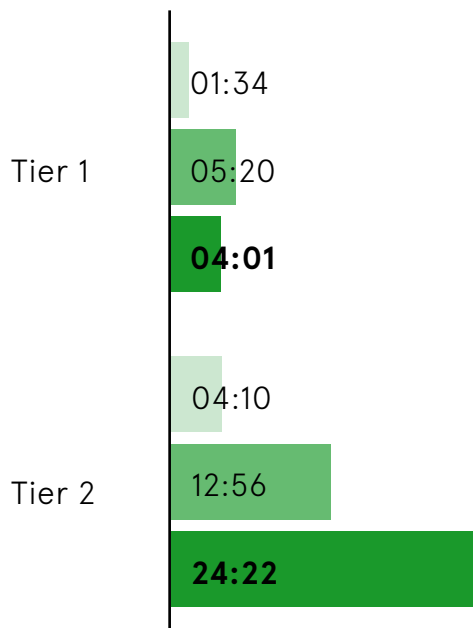
Number of calls answered



Number of summary legal advice assists



Average call wait time



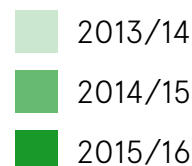
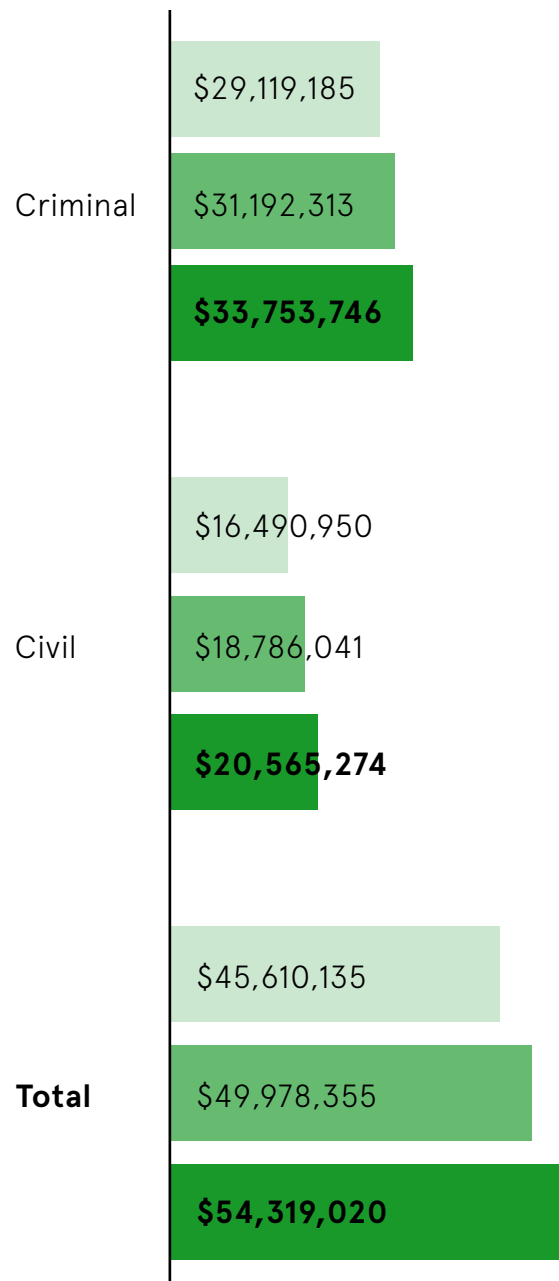
Courthouse services

- Legal aid workers do their jobs alongside duty counsel and staff lawyers in courthouses and legal aid offices. They can assist clients with in-person certificate applications, contacting sureties and adjourning matters in first appearance court.
- Duty counsel are LAO staff and per diem lawyers in courthouses. They can give immediate legal assistance to low-income people who would otherwise be unrepresented and unassisted.
- Paralegals are professionals licensed by the same governing body that regulates lawyers, the Law Society of Upper Canada. Their scope of practice includes summary conviction matters as well as provincial offences matters.

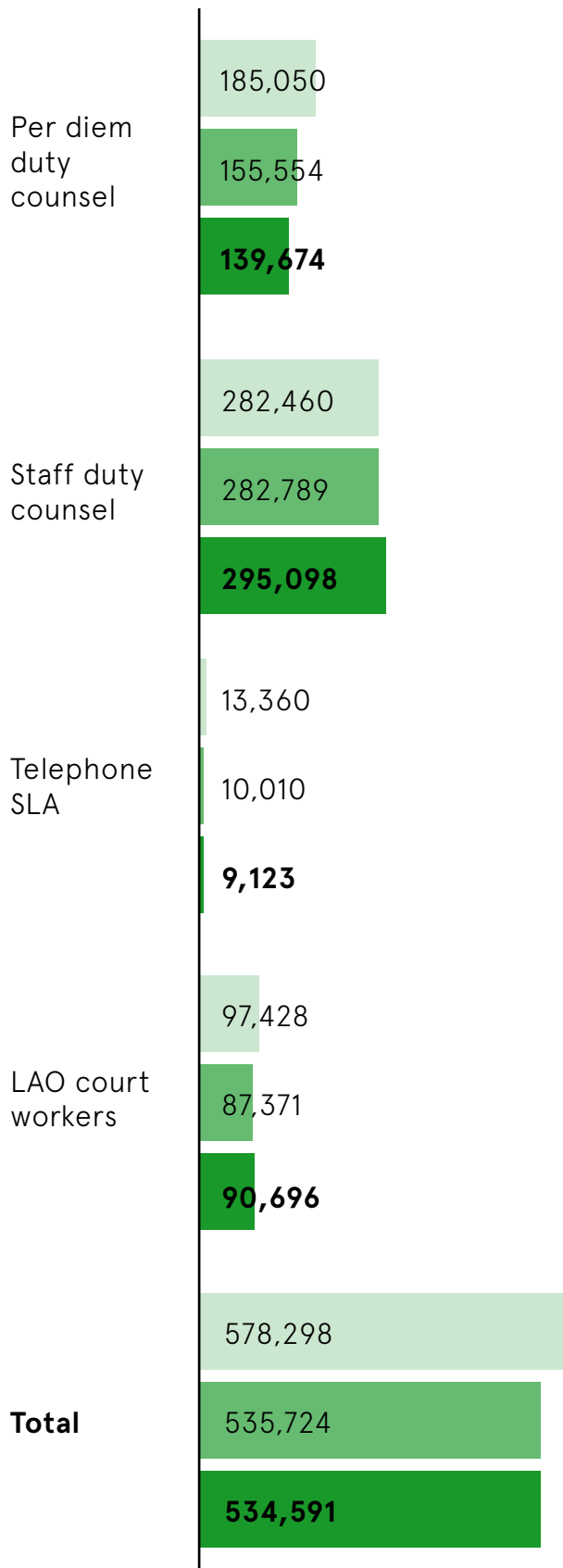
Note: For 2015/16, the number of civil SLA services no longer includes transfers from SLA to Level 2.

Expenditures do not include the Brydges Duty Counsel service.

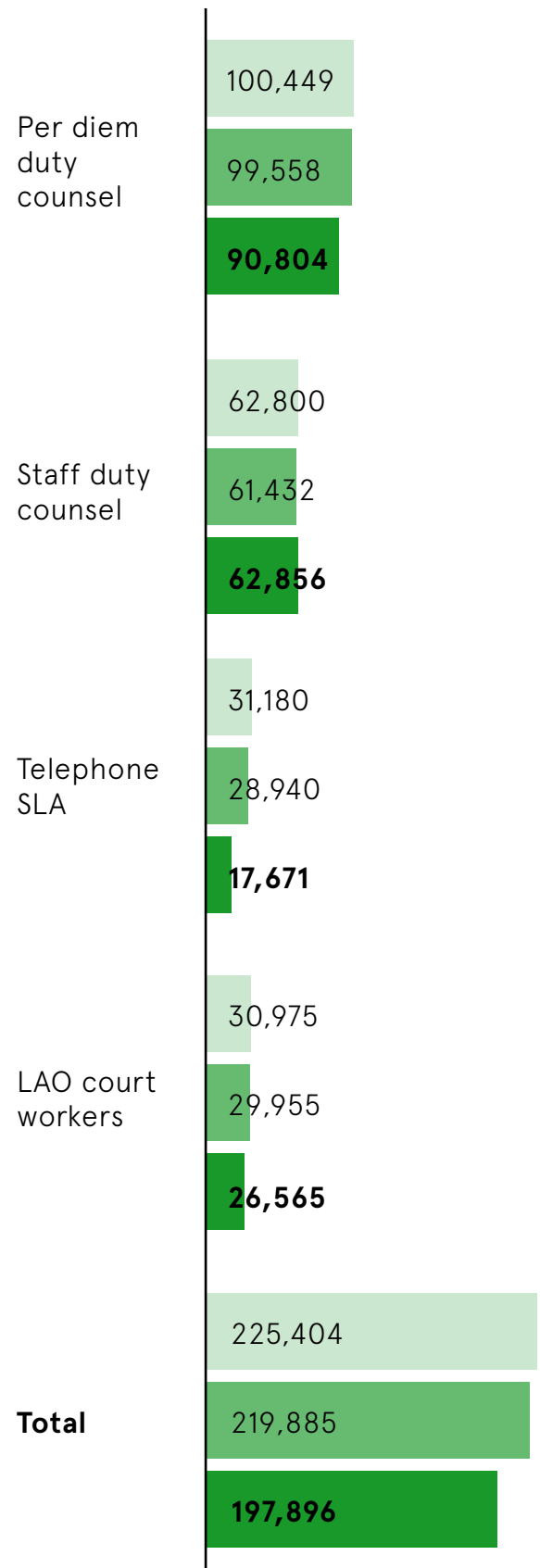
Duty counsel program costs by area of law



Total persons assisted – criminal



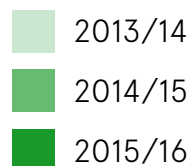
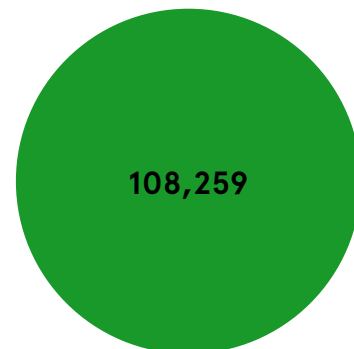
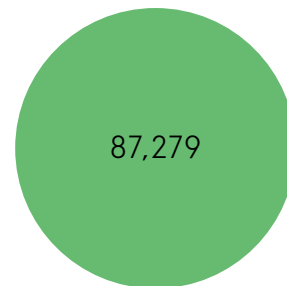
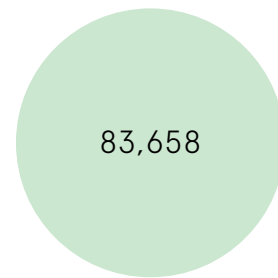
Total persons assisted – civil



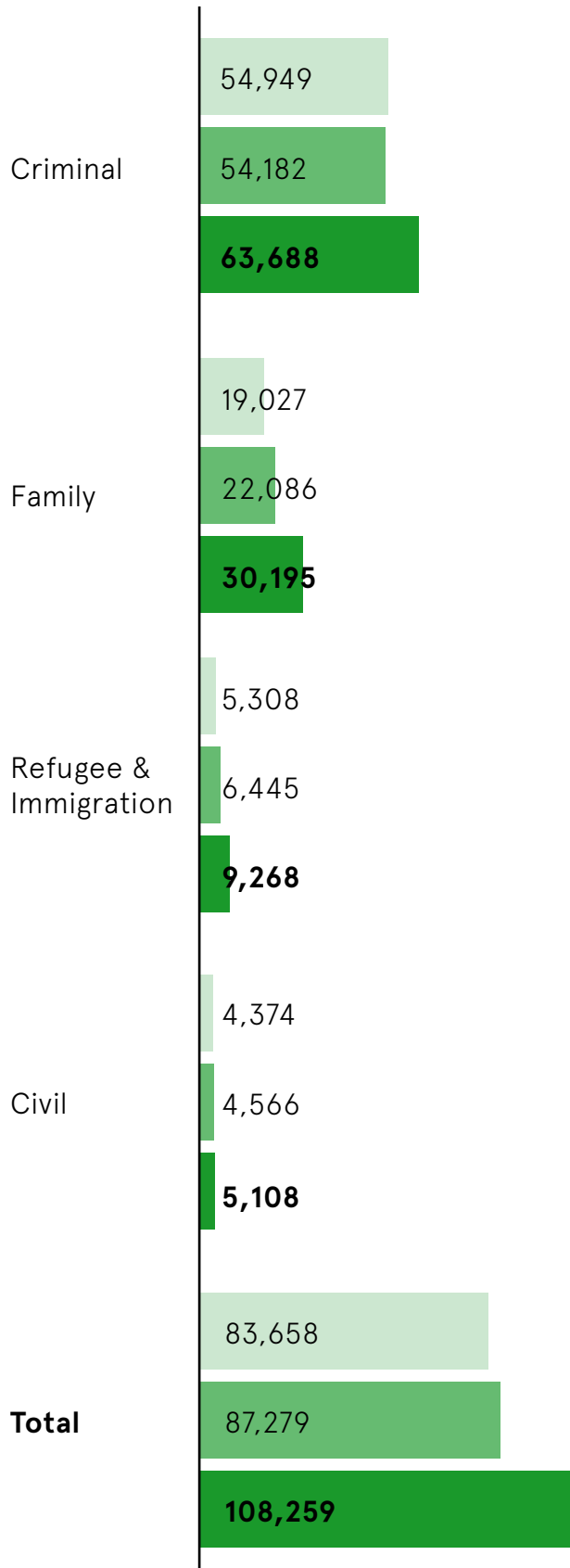
Representation by a private practice lawyer

- Legal aid applicants who are financially eligible and who are facing a serious legal matter covered by LAO may be issued a certificate to cover the cost of a private bar lawyer.
- A certificate is a voucher that a low-income person can take to one of more than 3,600 private practice lawyers across the province who accept legal aid clients. A certificate guarantees the lawyer payment for a certain number of hours if they accept the case.

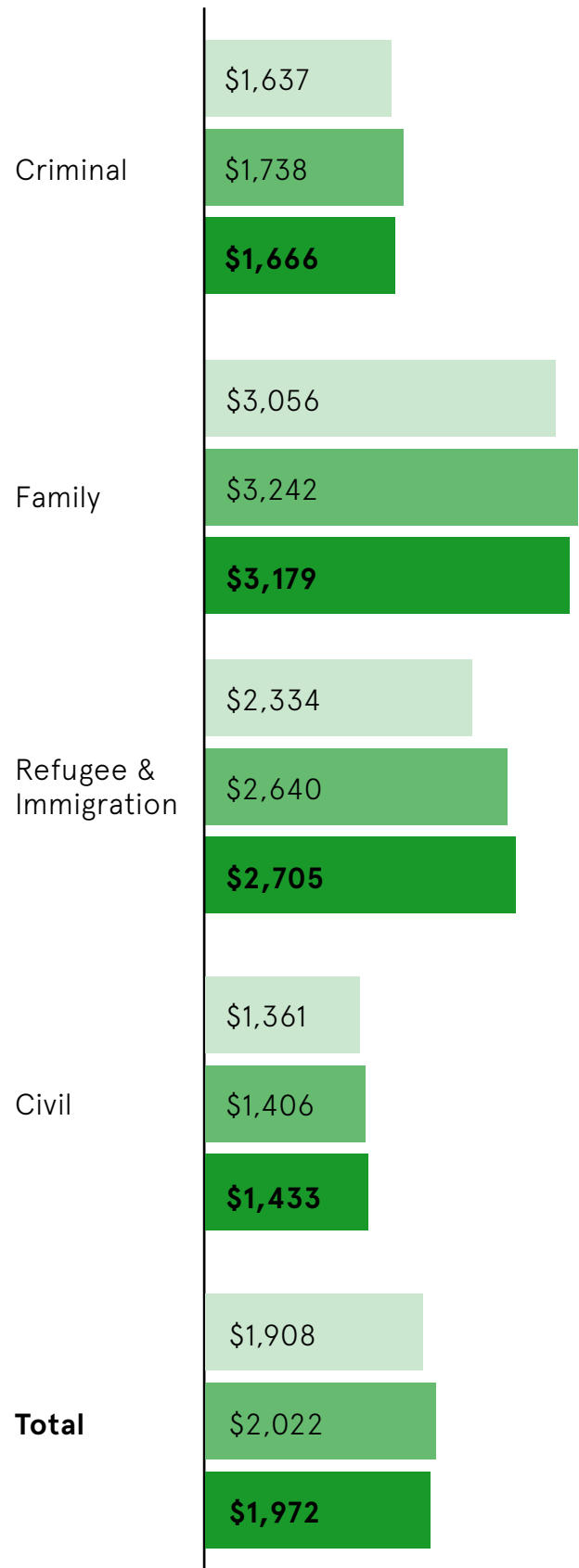
Number of certificates issued



Certificates issued by area of law



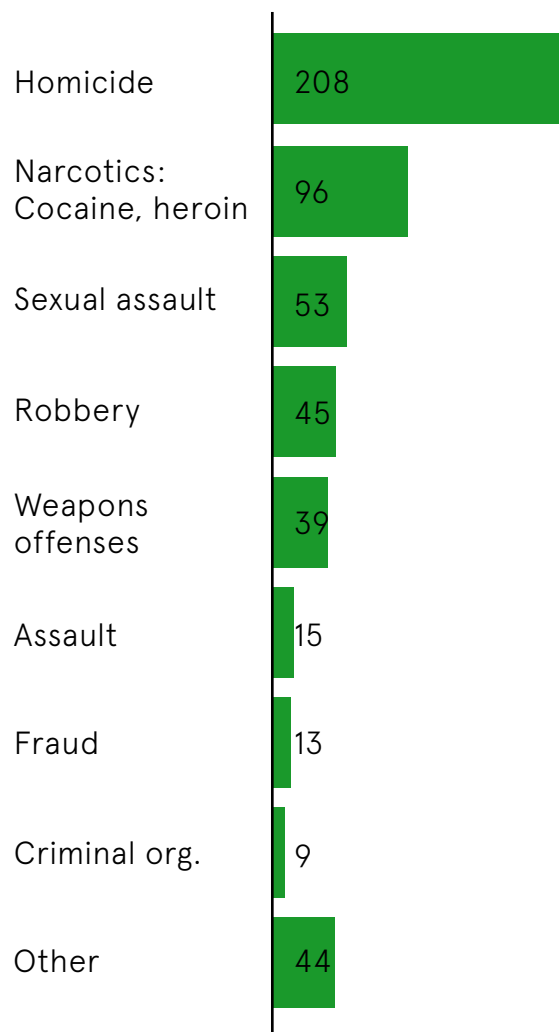
Average certificate cost by area of law



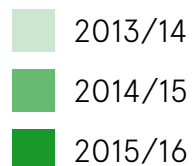
Big case management

Under the Big Case Management (BCM) program, LAO sets budget limits for criminal cases expected to cost more than \$20,000. In these cases, LAO establishes individual budgets rather than using its tariff system to determine the maximum hours available to counsel.

Number of new BCM cases



Total: 522



Clinic law services

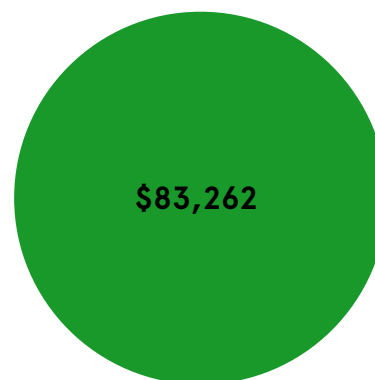
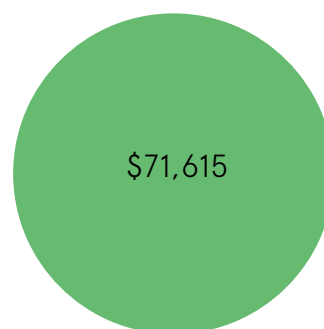
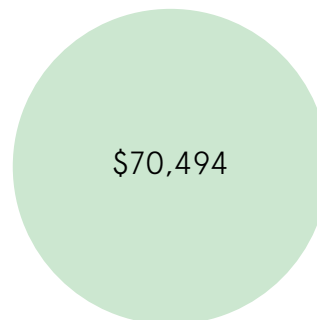
LAO is the primary funder of 76 community legal clinics, which provide services for legal problems such as:

- eviction
- housing disrepair
- violation of tenant rights
- issues with entitlement to income supports
- human rights violations
- criminal injuries compensation
- consumer protection issues
- issues in the workplace as a result of precarious employment, breaches of employment standards legislation, employment insurance, workplace safety and wrongful terminations

Clinics in dispute resolution

The African Canadian Legal Clinic (ACLC) is engaged in Level 3 of LAO's dispute resolution process as a result of concerns regarding the clinic's financial management and board governance. The dispute resolution process is ongoing.

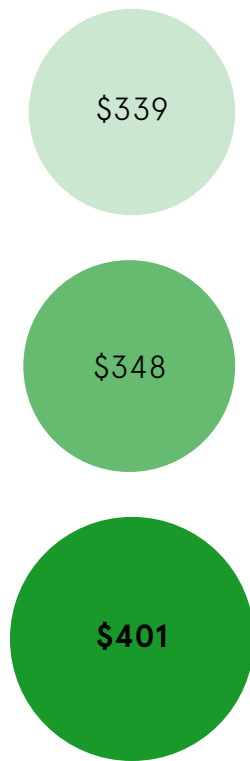
Total cost of clinic active files (\$000s)



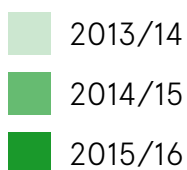
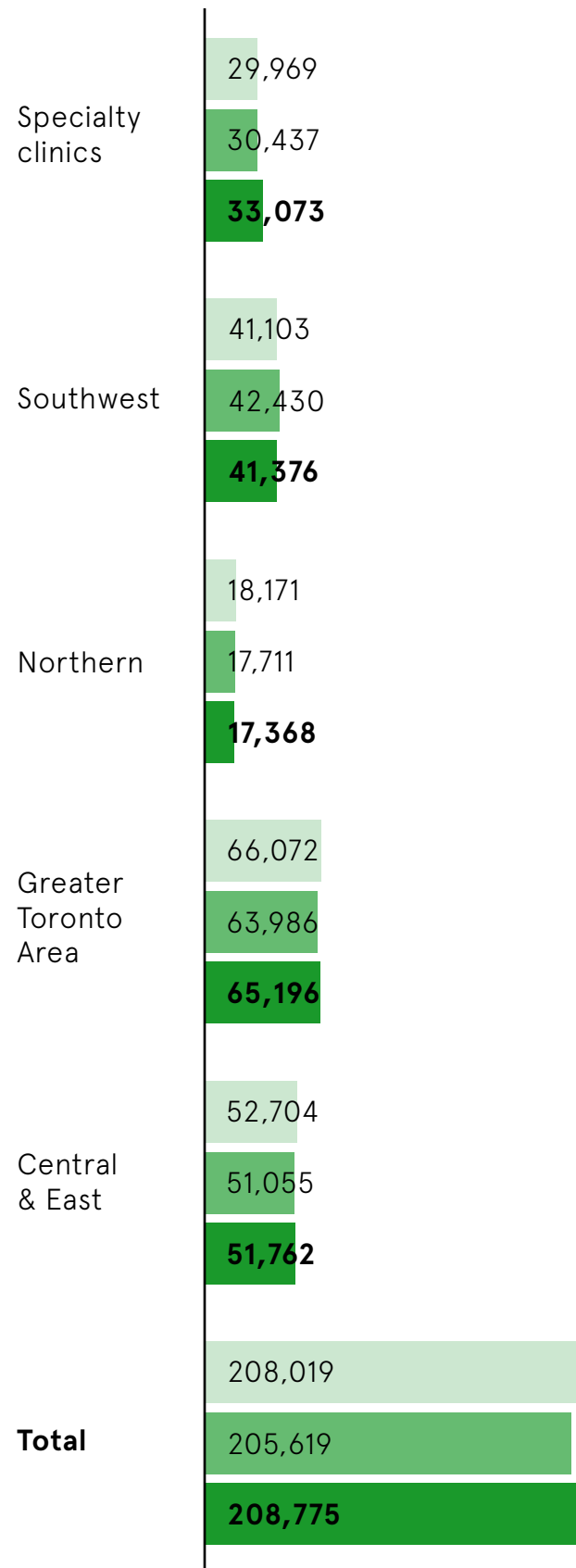
Note: For 2015/16, the total cost of clinic active files excludes \$1,837K from the \$85,462K on page 30 of the financial statements. This number is for the specialty clinic build out.

For 2014/15, the cost is exclusive of \$4,215K for financial eligibility funding and \$2,141K for expenses paid on behalf of the clinics.

Cost per clinic active file



Number of clinic active files



Key performance indicators

Overall corporate health measures: financial

Indicator	Measure	Target	Current levels
Financial	Balanced budget	No deficit	\$13.8M annual deficit
	Debt position	Elimination of accumulated deficit	Net deficit of \$0.3M at end of year
	Cash flow	\$15 million cash balance	\$6.5M cash balance at end of year
Productivity	Cost per assist	Maintain current level of \$242/assist	\$273
Administrative efficiency	Admin cost as % of total expenditures	11% of total expenditures	10.9%

Overall corporate health measures: staff health

Indicator	Measure	Target	Current levels
Organizational health	Turnover	Typically a 10% exit rate is considered an optimal balance between a stable workforce and enough movement to allow growth and new experience.	6.97%
	Staff : Management ratio	Meet target of 10:1	9:1
	Sick days (incidental and short term)	Maintain average sick days below OPS of 10.4	10.1
	Employee engagement	Under development	N/A

Overall corporate health measures: client services

Indicator	Measure	Target	Current levels
Timeliness	Level 1 and Lawyer Service Centre (LSC) – % of calls answered within 3 minutes	80%	L1: 62% LSC: 89% Worklist/ In-custody: 67%
	Level 2 and Summary Legal Advice (SLA) – % of calls answered within 20 minutes	80%	L2: 56% SLAF: 71% SLAC: 79%
	Same-day decisions for certificate applications	80%	76%
	% of area office appeals heard within 3 days	80%	45%
	Application acceptance rates for certificates	87%	88%
Access to justice	Percentage of clients who would self-represent if not for LAO	Maintain	45% (2014 results)
	Number of Ontarians financially eligible for LAO's services	Maintain	1.4M (as on April 1, 2016)
Client satisfaction	Overall client satisfaction	80%	83% positive (2014 results)
Lawyer satisfaction	Overall lawyer satisfaction	60%	57% positive 24% neutral

Financial statements

For the year ended March 31, 2016

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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 8, 2016



Michelle Séguin
Chief Administrative Officer
and Vice President

June 8, 2016



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To Legal Aid Ontario
and to the Attorney General of Ontario

I have audited the accompanying financial statements of Legal Aid Ontario, which comprise the balance sheet as at March 31, 2016 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion


In my opinion, these financial statements present fairly, in all material respects, the financial position of Legal Aid Ontario as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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www.auditor.on.ca

Toronto, Ontario
June 8, 2016

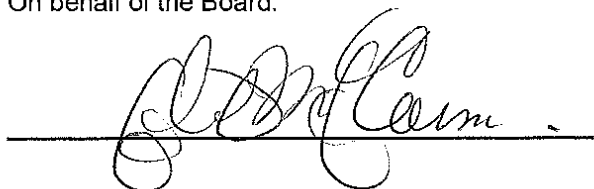

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Legal Aid Ontario

Balance Sheet

	March 31, 2016 (\$000's)	March 31 2015 (\$000's)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,463	\$ 15,627
Investments (Note 4)	29,527	38,829
Prepaid expenses and other assets	2,630	1,981
Client accounts receivable (Note 3(a))	15,709	15,598
Other receivables (Note 3(b))	11,112	14,484
	\$ 65,441	\$ 86,519
Long-term client accounts receivable (Note 3(a))	20,995	22,862
Capital net assets (Note 5)	6,982	7,572
	\$ 93,418	\$ 116,953
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 85,232	\$ 88,292
Deferred contributions (Note 7)	5,477	6,600
Deferred grants (Note 8)	-	934
Accrued pension liability (Note 12)	1,613	1,237
	\$ 92,322	\$ 97,063
Contingency reserve (Note 13)	1,400	6,400
	\$ (11,367)	\$ -
Net accumulated deficit	11,063	13,490
Internally restricted net assets (Note 9)		
	(304)	13,490
	\$ 93,418	\$ 116,953
TOTAL LIABILITIES AND NET ASSETS		

On behalf of the Board:



Chair

Legal Aid Ontario

Statement of Operations

For the year ended March 31

	2016 (\$000's)	2015 (\$000's)
REVENUE		
Total government funding (Notes 1(a), (2), (7) and (13))	\$ 395,266	\$ 363,111
The Law Foundation of Ontario (Note 8)	25,211	29,179
Client contributions	9,995	9,883
Client and other recoveries	811	763
Investment income (Note 4)	390	599
Miscellaneous income	<u>969</u>	<u>632</u>
TOTAL REVENUE	\$ 432,642	\$ 404,167
EXPENSES (Note 2)		
Client Programs		
Certificate Program		
Criminal - Big cases	\$ 30,162	\$ 25,560
Criminal - others	<u>81,931</u>	<u>76,324</u>
Sub-total	112,093	101,884
Family	60,654	49,837
Immigration and refugee	17,108	16,039
Other civil	<u>6,174</u>	<u>5,781</u>
Sub-total	196,029	173,541
Settlement conferences	163	137
Family law offices	10,038	7,928
Criminal law offices	2,927	1,331
Refugee law office	4,749	3,064
Articling students	2,471	2,466
Nishnawbe-Aski Legal Services Corporation	<u>1,858</u>	<u>1,842</u>
Certificates	<u>218,235</u>	<u>190,309</u>
Duty Counsel Program		
Duty counsel fees and disbursements	53,432	49,443
Expanded duty counsel	<u>2,146</u>	<u>1,766</u>
Sub-total	<u>55,578</u>	<u>51,209</u>
Clinic Program and Special Services		
Clinic law services (Note 10)	85,462	77,971
Student legal aid services societies	5,337	4,399
Clinic information management project	<u>1,474</u>	<u>1,516</u>
Sub-total	<u>92,273</u>	<u>83,886</u>
Service Innovation Projects		
Other	<u>1,766</u>	<u>1,808</u>
Sub-total	<u>1,766</u>	<u>1,808</u>

Legal Aid Ontario**Statement of Operations****For the year ended March 31****2016**
(\$000's)**2015**
(\$000's)**EXPENSES (continued)****Program Support**

Regional operations

2,740

2,311

District/Area office services

14,943

15,282

Client and legal service centre

10,6328,283

Sub-total

28,31525,876**TOTAL CLIENT PROGRAMS****396,167**353,088**Service Provider Support**

Research facilities

4,015

3,599

Lawyers' services and payments

2,3172,179

Sub-total

6,3325,778**Administrative and Other Costs**

Provincial office

36,411

35,070

Amortization

3,263

2,413

Bad debts

4,2633,949

Sub-total

43,93741,432**TOTAL EXPENSES****\$ 446,436**\$ 400,298**Surplus (deficit) of revenue over expenses for the year****\$ (13,794)**\$ 3,869

Legal Aid Ontario**Statement of Changes in Net Assets (Deficit)****For the year ended March 31**

	Internally restricted (Note 9)	Accumulated (deficit)	2016 Total	2015 Total
(\$000's)				
Net assets, beginning of year	\$ 13,490	\$ -	\$ 13,490	\$ 9,621
Surplus (deficit) of revenue over expenses for the year	-	(13,794)	(13,794)	3,869
Transfer from internally restricted	(2,427)	2,427	-	-
Net assets (deficit), end of year	\$ 11,063	\$ (11,367)	\$ (304)	\$ 13,490

Legal Aid Ontario
Statement of Cash Flows

For the year ended March 31

2016
(\$000's)

2015
(\$000's)

Cash provided by (used in)

OPERATING ACTIVITIES

Surplus (deficit) of revenue over expenses for the year	\$ (13,794)	\$ 3,869
Adjustments to reconcile surplus (deficit) of revenue over expenses to net cash provided by operating activities:		
Amortization of capital assets	3,263	2,413
Employer pension contributions	(6,144)	(5,062)
Pension expense	6,520	5,381
Changes in non-cash balances:		
Accrued interest on investments	303	(171)
Prepaid expenses and other assets	(649)	(267)
Client accounts receivable	(111)	1,164
Other receivables	3,372	4,311
Long-term client accounts receivable	1,867	(976)
Accounts payable and accrued liabilities	(3,060)	(4,434)
Deferred contributions	(1,123)	1,000
Deferred grants	(934)	(1,454)
Contingency Reserve	(5,000)	-
	<u>\$ (15,490)</u>	<u>\$ 5,774</u>

INVESTING ACTIVITIES

Redemption (purchase)	\$ 8,999	\$ (10,000)
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CAPITAL ACTIVITIES

Purchase of capital assets	\$ (2,673)	\$ (4,795)
----------------------------	------------	------------

Net decrease in cash and cash equivalents during the year

(9,164) **(9,021)**

Cash and cash equivalents, beginning of year

15,627 **24,648**

Cash and cash equivalents, end of year

\$ 6,463 **\$ 15,627**

Notes to Financial Statements

March 31, 2016

NATURE OF OPERATIONS

On December 18, 1998, the Ontario Legislative Assembly enacted the *Legal Aid Services Act, 1998* whereby Legal Aid Ontario "LAO" (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 eleven Directors appointed by the Lieutenant Governor in Council. While the Corporation operates independently from the Province of Ontario and the Law Society of Upper Canada, 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 supplemented by 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 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 straightline 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.

Notes to Financial Statements

March 31, 2016

REVENUE RECOGNITION

The Corporation follows the deferral method of accounting for contributions.

Externally restricted contributions are deferred when initially recorded in the accounts 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, costs and settlements 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 and balances with banks plus 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 one year or less.

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 lease

Notes to Financial Statements

March 31, 2016

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. The cost of non-vesting sick leave benefits is also actuarially determined using 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 a defined contribution pension plan are expensed 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 in the future. 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.

Notes to Financial Statements

March 31, 2016

1. Government Funding

Section 71 of the *Legal Aid Services Act, 1998* requires the Corporation and the Attorney General of Ontario 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, and contributions recognized from the Province are as follows:

	2016 (\$000's)	2015 (\$000's)
General contributions	\$ 363,766	\$ 356,711
Financial Eligibility (Note (2))	31,500	6,400
Total contributions	\$ 395,266	\$ 363,111

- (b) Included in contributions from the Province of Ontario for the year ended March 31, 2016 is an amount of \$50.9 million (2015 - \$50.7 million) representing an allocation of funds from a lump sum transfer by the Federal Government to the Province in connection with criminal law, the *Youth Criminal Justice Act*, Immigration and Refugee expenditures for unique pressures through a cost-sharing arrangement.
- (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. Financial Eligibility

In the 2014, 2015 and 2016 provincial budgets, the Government of Ontario committed to provide Ontarians with greater access to justice by increasing the Financial Eligibility threshold by 6% per year. The first increase took place on November 1, 2014; since then increases have taken place each year on April 1, 2015 and April 1, 2016. Further increases are scheduled each year to 2020. LAO received \$31.5 million (note 1(a)) from the Province of Ontario in 2015/16 (2015 - \$6.4 million) and the province has committed to increase funding to \$48.8 million in 2016/17, \$67.0 million in 2017/18, \$86.3 million in 2018/19, \$106.4 million in 2019/20 and \$120.1 million in 2020/21.

LAO's objective is to increase access to justice and ensure that the Financial Eligibility funding is fully utilized by increasing the number of clients served through the certificate program, and the new clinic and staff programs. On average it takes three years for the full cost to be realized and it is anticipated that there will be years when expenses incurred exceed contributions received in the early year and vice versa in the latter years. These differences in revenue and expenses will offset each other, over the term of the program.

During the year, LAO incurred expenses of \$37.1 million (2015 - \$6.4 million) and received contributions of \$31.5 million (2015 - \$6.4 million). Cumulatively to date, LAO has incurred expenses of \$43.5 million and received contributions of \$37.9 million.

Notes to Financial Statements

March 31 2016

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 a non-contributory certificate. These applicants receive the assistance they need by entering into a contribution agreement, which 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 2016 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
Client accounts receivable	\$ 66,425	\$ 185	\$ 200	\$ 234	\$ 65,806
Less: impairment allowance	(29,721)	(98)	(98)	(100)	(29,425)
Net receivables	\$ 36,704	\$ 87	\$ 102	\$ 134	\$ 36,381

March 31 2015 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
Client accounts receivable	\$ 70,868	\$ 184	\$ 800	\$ 249	\$ 69,635
Less: impairment allowance	(32,408)	(64)	(448)	(134)	(31,762)
Net receivables	\$ 38,460	\$ 120	\$ 352	\$ 115	\$ 37,873

	2016 (\$000's)	2015 (\$000's)
Represented by		
Current (non-lien) client accounts receivable	15,709	15,598
Long-term (lien) client accounts receivable	20,995	22,862
	\$ 36,704	\$ 38,460

Notes to Financial Statements

March 31 2016

(b) Other receivables

Other receivables are mainly composed of amounts due from the Law Foundation of Ontario, Canada Revenue Agency and both the Federal Department of Justice ("DOJ") and MAG for protocol cases.

March 31 2016 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
MAG protocol cases	\$ 2,399	\$ 476	\$ 502	\$ 550	\$ 871
DOJ protocol cases	374	66	56	127	125
HST receivable	5,811	2,959	2,621	-	231
The Law Foundation of Ontario	1,794	1,794	-	-	-
Other receivables	734	373	-	-	361
Total other receivables	\$ 11,112	\$ 5,668	\$ 3,179	\$ 677	\$ 1,588

March 31 2015 (\$000's)	Total	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
MAG protocol cases	\$ 3,908	\$ 1,329	\$ -	\$ -	\$ 2,579
DOJ protocol cases	524	454	56	14	-
HST receivable	7,519	3,100	2,032	-	2,387
The Law Foundation of Ontario	2,061	2,061	-	-	-
Other receivables	472	472	-	-	-
Total other receivables	\$ 14,484	\$ 7,416	\$ 2,088	\$ 14	\$ 4,966

Notes to Financial Statements**March 31 2016**

4. Investments

	2016 (\$000's)	2015 (\$000's)
Guaranteed investment certificates	\$ 29,400	\$ 38,400
Accrued interest	127	429
Investments	<u>\$ 29,527</u>	<u>\$ 38,829</u>

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, 2016 are in compliance with the statutory requirements. There were no long-term investments held as at March 31, 2016 (2015 - nil). Short-term investments held of \$29.4 million (2015 - \$38.4 million) are invested at variable interest rates.

The Corporation earned investment income of \$0.4 million in 2016 (2015 - \$0.6 million).

Notes to Financial Statements

March 31 2016

5. Capital Assets

	2016 (\$000's)		2015 (\$000's)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and office equipment	\$ 209	\$ 139	\$ 271	\$ 154
Computer hardware	5,859	2,956	5,019	2,360
Leasehold improvements	6,640	3,781	6,003	2,997
Enterprise-wide software	17,847	16,697	17,753	15,963
	\$ 30,555	\$ 23,573	\$ 29,046	\$ 21,474
Net book value		\$ 6,982		\$ 7,572

6. Accounts Payable and Accrued Liabilities

	2016 (\$000's)	2015 (\$000's)
Legal accounts		
- accruals for billings received but not paid	\$ 19,500	\$ 20,185
- estimate of work performed but not yet billed	52,853	57,054
Rent inducements	558	780
Trade and other payables	9,971	8,813
Vacation pay	2,350	1,460
	\$ 85,232	\$ 88,292

Notes to Financial Statements**March 31 2016**

7. Deferred Contributions

The Province of Ontario provided LAO with \$30.0 million funding over a three-year period, starting in 2013/14. This is to enhance family law services. LAO sought and received approval by MAG to defer \$1.0 million from \$10.0 million received in 2014/15. In 2015/16, \$10.0 million (2015 - \$10 million) was received and \$11.0 million recognized (2015 - \$9.0 million).

The following chart shows funds which have been deferred to future periods:

	2016 (\$000's)	2015 (\$000's)
Balance, beginning of year	\$ 6,600	\$ 5,600
Provincial funding received	10,000	10,000
Amounts recognized (Note 1(a))	(11,123)	(9,000)
Balance, end of year	\$ 5,477	\$ 6,600

8. Deferred Grants

The Corporation has received the following funds from the Law Foundation of Ontario for future projects:

	2016 (\$000's)	2015 (\$000's)
Balance, beginning of year	\$ 934	\$ 2,388
Amounts recognized as revenue	(934)	(1,454)
Balance, end of year	\$ -	\$ 934

Notes to Financial Statements

March 31 2016

9. Internally Restricted Net Assets

- (a) Annually, the Board of Directors determines the amount, if any, to be transferred between accumulated surplus (deficit) and internally restricted net assets. These internally restricted amounts are not available for other purposes without approval of the Board of Directors.

Internally restricted net assets consist of the following:

	2016 (\$000's)	2015 (\$000's)
Invested in capital assets (Note 9(b))	\$ 6,982	\$ 7,572
Internally restricted for the specialty clinic co-location project (Note 9(c)(i))	1,163	3,000
Internally restricted for the cost of the tariff increases (Note 9(c)(ii))	2,918	2,918
	\$ 11,063	\$ 13,490

- (b) 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:

	2016 (\$000's)	2015 (\$000's)
Balance, beginning of year	\$ 7,572	\$ 5,190
Purchase of capital assets	2,673	4,795
Amortization	(3,263)	(2,413)
Balance, end of year	\$ 6,982	\$ 7,572
Represented by		
Capital assets (Note 5)	\$ 6,982	\$ 7,572

- (c) (i) The Board of Directors set aside \$3 million in a restricted reserve in 2014/15 to be used to pay for leasehold improvements related to the co-location of specialty clinics. During 2015/16, \$1.8 million was used.

- (ii) In 2010, MAG, LAO and Criminal Law Association entered into a MOU that included seven tariff increases of 5% over six years. The total cost of these tariff increases will be fully realized by LAO by 2017/18. As a result of government restraints, LAO is funding approximately \$14 million from internal savings. In 2014/15, the Board of Directors set aside \$2.9 million as a restricted reserve to offset this component of the cost of the tariff increases, which will be used in 2016/17.

Legal Aid Ontario

Notes to Financial Statements

March 31 2016

10. 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.

	2016 (\$000's)	2015 (\$000's)
Payments to and on behalf of clinics	\$ 85,462	\$ 77,971

11. 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, 2016, management estimates that a potential \$51.9 million (2015 - \$55.6 million) of authorized legal services could still be incurred on certificates issued on or before March 31, 2016 over and above the billings received to date and management's estimate of work performed but not yet billed.
- (b) The Corporation leases various office premises and equipment throughout the Province. The rent and estimated operating costs are based on lease agreements and prior period information on operating costs for leases held over the next five years and thereafter as follows:

	Base Rent (\$000's)	Operating Cost (\$000's)	Total (\$000's)
2017	\$ 2,226	\$ 2,607	\$ 4,833
2018	2,080	2,530	4,610
2019	1,208	1,355	2,563
2020	445	282	727
2021	99	40	139
Thereafter	113	112	225
	<u>\$ 6,171</u>	<u>\$ 6,926</u>	<u>\$ 13,097</u>

Notes to Financial Statements

March 31 2016

11. Commitments and Contingencies (continued)

- (c) The Corporation is the defendant in a number of lawsuits arising in the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not known; however, based on the claims made, management estimates an amount of \$0.3 million and have made the necessary provision. Some of the above 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.

12. 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 961 (2015 - 914) employees. LAO increased its contribution to 9% effective January 1, 2016. The Corporation's pension expense for the year relating to this component of the plan was \$6.1 million (2015 - \$5.0 million). LAO has a transition plan to get all employee contributions to nine percent of the employees' pensionable earnings by January 1, 2018. As a result, the existing employee contribution rate varies between six and eight percent depending on the contribution of the employees to the component of the plan.

Defined Benefit Component

The defined benefit component of the plan covers a total of 16 employees; there are three active (2015 - three) participants and 13 retirees (2015 - 14). 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, 2016 (2015 - four). 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 actuarial valuation for the new three-year period starting January 1, 2014 was completed. The next actuarial valuation of the Plan for funding purposes will be prepared as at January 1, 2017. The Corporation makes pension contributions to this component of the plan in amounts recommended by the actuary.

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

	2016 (\$000's)	2015 (\$000's)
Accrued benefit obligation	\$ 3,640	\$ 3,620
Fund assets at market value	4,076	4,305
Funded status - plan surplus	436	685
Unamortized net actuarial loss (gain)	225	(80)
Accrued pension asset	\$ 661	\$ 605

Notes to Financial Statements

March 31 2016

12. Pensions (continued)

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

	2016 (\$000's)	2015 (\$000's)
Current period benefit cost	\$ 24	\$ 25
Amortization of actuarial (gains) losses	(20)	48
Interest revenue	(35)	(19)
	\$ (31)	\$ 54

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

	2016	2015
Accrued benefit obligation		
Discount rate	5.25%	5.25%
Rate of compensation increase	3.00%	3.00%

	2016	2015
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:

	2016 (\$000's)	2015 (\$000's)
Employer contributions	\$ 24	\$ 63
Employee contributions	9	10
Benefits paid	200	197

Notes to Financial Statements

March 31 2016

12. Pensions (continued)

Supplementary Executive Benefit Plan

The Board of the Corporation has also approved the establishment of a supplementary pension benefit plan for a designated executive member. Under the supplementary pension benefit 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, 2016.

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

	2016	2015
Discount rate	4.0%	4.00%
Inflation	1.5%	1.50%

The Corporation's pension expense for the year was \$0.4 million (2015 - \$0.3 million). The accrued benefit obligation and the accrued benefit liability as at March 31, 2016 was \$2.3 million (2015 - \$1.8 million). During the year, the Corporation made no payments to the plan.

	2016 (\$000's)	2015 (\$000's)
Accrued Pension Asset (Liability)		
Defined Benefit Plan	\$ 661	\$ 605
Supplementary Executive Benefit Plan	(2,274)	(1,842)
	\$ (1,613)	\$ (1,237)

Notes to Financial Statements

March 31 2016

13. 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.

	2016 (\$000's)	2015 (\$000's)
Balance, beginning of year	\$ 6,400	\$ 6,400
Amounts recognized as revenue	(5,000)	-
Balance, end of year	\$ 1,400	\$ 6,400

14. 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.

Accounts payable mature within 21 days on certificates. The maturities of other financial liabilities are provided in notes to the financial statements related to these liabilities.

Interest rate risk

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

Investments of \$29.4 million (2015 - \$38.4 million) are invested at the rate of 0.9% with multiple maturity dates between April 2, 2015 and January 19, 2017. These interest rates vary with the Canadian prime rate.

Management discussion and analysis

The management discussion and analysis is intended to assist readers in understanding the operating results and financial position of LAO as well as its strategic direction regarding the provision of services in the future.

This report should be read in conjunction with LAO's audited financial statements for the year ended March 31, 2016, prepared in accordance with Canadian public sector accounting standards, and the accompanying notes, which form a part of those statements.

Executive summary

Process of approval of LAO's financial statements

- The LAO audit has been conducted by Ernst & Young on behalf of the Office of the Auditor General of Ontario for the year ended March 31, 2016.
- The Auditor General of Ontario has issued an unqualified opinion.

Summary of LAO's financial position

LAO's operating deficit for the period ended March 31, 2016 is \$13.8M, of which \$5.6M is related to the over-expenditure in the financial eligibility program and of which \$1.8M is related to the funding of the Specialty Clinic Project, which is funded from appropriations (explained further below); therefore LAO's operating deficit excluding these items is \$6.4M, against an approved operating deficit budget of \$8M.

Summary of the use of internally restricted funds

In April 2015, LAO's board approved two internally restricted reserves:

- \$3M to fund the Specialty Clinic Project – \$1.8M of the \$3M was used in 2015/2016 to offset the costs incurred on the project this fiscal year. The remaining balance of \$1.2M is set aside for the costs to be paid in 2016/17.
- \$2.9M to offset the cost of the future tariff increases implemented between 2010 and 2015. The \$2.9M will be used to cover some of the tariff cost in 2016/17.

In addition, in 2013/14 the Ministry of the Attorney General (MAG) provided LAO with \$6.4M for the tariff increases, which was set aside in the Contingency Reserve Fund. \$5M is being used for the tariff costs incurred in 2015/16. The remaining balance of \$1.4M will be used in 2016/17.

Significant differences between 2016 and 2015 fiscal years

Revenues (Page 30)

(\$000s)	2016	2015	Increase/ (Decrease)
Government of Ontario	\$363,726	\$356,691	7,035
Financial Eligibility	\$31,540	\$6,420	25,120
Law Foundation	25,211	29,179	(3,968)
Client Contributions	9,995	9,883	112
Client & Other Recoveries	811	763	48
Investment Income	390	599	(209)
Miscellaneous	969	632	337
Total revenues	\$432,642	\$404,167	\$28,475

Government funding – \$32.1M increase

(\$000s)	2016	2015	Increase/ (Decrease)
Government of Ontario	\$352,549	\$347,549	5,000
Government of Ontario – New 2013 Family Funding	11,000	9,000	2,000
Government of Canada – Department of Justice	177	142	35
Sub total	363,726	356,691	7,035
Government of Ontario – Financial Eligibility	31,540	6,420	25,120
Total government contributions	\$395,266	\$363,111	\$32,155

- **Government of Ontario:** As discussed earlier, LAO recognized \$5M of the \$6.4M from MAG set aside in the Contingency Reserve Fund for tariff increases in 2015/16. The transfer from the Contingency Reserve Fund flows through government revenues as these revenues were not recognized at the time they were received.
- **2013 family funding:** LAO received \$30M over three years. However, these funds are being spent over four years. These revenues are being recognized when the expenditures are made so that revenues match the expenditures. Expenditures for the New Family Funding program were \$11M in 2015/16 and \$9M in 2014/15.
- **Department of Justice:** LAO also received additional funding for cessations and vacation refugee cases in the amount of \$177K from the federal government; this funding is based on these types of cases received in the prior year and the increase was responsible for this change in revenue.
- **Government of Ontario - financial eligibility:**
 - Funding: \$31.5M was received in 2015/16, allocated as follows:
 - \$9.8M to the clinics
 - \$17.1M certificate program
 - \$1.5M Client and Lawyer Support Centre
 - \$3.1M for administrative purposes
 - Expenditures: a total of \$37.1M was spent this year
 - Over-expenditure of \$5.6M will be recovered from future financial eligibility funding
 - The financial statement includes a new Note 2. The Note explains the purpose of the new financial eligibility funding and explains that over- and under-expenditures in this program will be offset over the term of the program. The Note has been reviewed by MAG staff and has been audited.

Law Foundation of Ontario – \$3.9M decrease

Law Foundation revenues decreased by \$3.3M from \$27.6M to \$24.3M this year. The Bank of Canada rate decreased by a total of 50 basis points: the first 0.25 per cent rate change took effect in January 2015, and the second 0.25 per cent rate change took effect in July 2015. Banks decreased their rates by 30 basis points. The effect of these decreases was felt in 2015/16.

The Law Foundation of Ontario provided \$3.25M project funding for the Clinic Information Management System (CIMS). LAO received these funds in 2012. The revenue is recognized when the cost are incurred. In 2015/16 LAO spent \$0.9M compared to \$1.5M in 2014/2015, a \$0.6M decrease.

Expenditures (pages 30-31)

(\$000s)	2016	2015	Increase/ (Decrease)
Certificate program	\$196,029	\$173,541	\$22,488
Staff office	\$22,206	\$16,768	\$5,438
Subtotal	\$218,235	\$190,309	\$27,926
Duty counsel	55,578	51,209	4,369
Clinic program	92,273	83,886	8,387
Service innovation projects	1,766	1,808	(42)
Program support	28,315	25,876	2,439
Service provider support	6,332	5,778	554
Administrative and other costs	43,937	41,432	2,505
Total expenditures	\$446,436	\$400,298	\$46,138

Major changes between 2015 and 2016 are explained below:

Certificate program – \$22.5M increase

(\$000s)	2016	2015	Increase/ (Decrease)	Increase/ (Decrease)
Criminal – BCM	\$30,162	\$25,560	4,602	18.0%
Criminal – Non-BCM	81,931	76,324	5,607	7.3%
Family	60,654	49,837	10,817	21.7%
Immigration/Refugee	17,108	16,039	1,069	6.7%
Civil	6,174	5,781	393	6.8%
Total	\$196,029	\$173,541	\$22,488	13.0%

The \$22.5M breaks down as follows:

- \$17.9M related to regular certificates and
- \$4.6M in the Big Case Management (BCM) certificate program costs

The \$17.9M increase in the regular certificate program is composed of three main changes:

- increase in financial eligibility of \$20.7M
- plus increase in tariff of \$9.1M
- additional refugee program costs of \$1.0M as a result of increased demand
- offset by a reduction of \$12.9M as a result of reductions to the number of certificates issued in prior years

The \$4.6M increase in the BCM program is broken down as follows:

(\$000s)	2016	2015	Increase/ (Decrease)
Certificate costs – BCM	\$26,924	\$22,680	4,244
Certificate costs – Mid-Level Case Management	1,997	1,370	627
Certificate costs – Group Application Test Case Committee	87	534	(447)
Certificate costs – Major Case Management Office	1,154	976	178
Total	30,162	25,560	4,602

Increase in expenditures in BCM certificates resulted from increases in issued BCM certificates, Alternative Fee Arrangement (AFA) contracts and increases in tariffs and Complex Case rates. BCM certificates have increased by 7 per cent to 8 per cent over the three years; AFA contract payments year over year have increased by \$3M. AFA payout rates are calculated to match the average amounts paid out over the life of a BCM certificate, but payouts early in the AFA contract could be higher than what actual payments would be under normal Non-AFA arrangements. Part of the increase in AFA reflects this change in payout trends for AFA contracts. Tariff and Complex Case rates have increased by \$1.6M from last year.

Staff office – \$5.4M increase

Staff office costs increased by \$5.4M from \$16.8M to \$22.2M mainly from the Family Law Office which increased from \$7.9M to \$10M as a result of the New Family Funding, Criminal Law Office from \$1.3M to \$2.9M and Refugee and Immigration Program GTA from \$3M to \$4.7M as a result of the establishment of the refugee panel management department.

Duty counsel program – \$4.4M increase

The duty counsel program has increased from \$51.2M to \$55.6M as a result of a \$4.4M increase in staff and expanded duty counsel costs. Increases in staff duty counsel costs came mainly from salary and benefit (pension) increase.

Clinic program – \$8.4M increase

The clinic program has increased from \$83.9M to \$92.3M as a result of:

- \$5.1M in new funding to increase the financial eligibility threshold for legal aid services in clinics
- \$1.8M in expenditure for specialty clinic co-location, funded through the contingency reserve
- \$0.9M in Student Legal Aid Services Societies: \$0.6M of this increase resulted from financial eligibility funds and \$0.3M from family law funding
- \$0.6M in clinic operating funding increase

Program support – \$2.4M increase

Program support includes regional operations, district offices and the Client and Lawyer Support Centre. The program has increased from \$25.9M to \$28.3M as a result of:

- \$0.2M in increased salaries and benefits, primarily from salary increases to lawyers and enhanced pension plan contributions
- \$0.3M in family funding initiatives
- Toll-free telephone service (Client and Lawyer Support Centre): \$1.4M additional funding from financial eligibility program allocated to the Client and Lawyer Support Centre to hire staff to meet the increased demand

Administration and other costs – \$2.5M increase

The increase in administration and other costs can be attributed to three main areas:

- An increase of \$1.3M mainly attributed to a rise in payroll and benefit payments in various departments
- An increase of \$0.9M in the first full year PeopleSoft upgrade amortization
- An increase of \$0.3M in bad debts attributed to higher write-offs in 2015/16, that represented the write-offs reported on a twelve month period

(\$000s)	2016	2015	Increase/ (Decrease)
Provincial Office	\$36,411	\$35,070	\$1,341
Amortization Expense	3,263	2,413	850
Bad Debt Expense	4,263	3,949	314
Total expenditures	\$43,937	\$41,432	\$2,505

Items with major differences in the balance sheet

(\$000s)	2016	2015	Increase/ (Decrease)
Assets			
Cash and short-term investments	35,990	54,456	\$(18,466)
Other receivables	11,112	14,484	(3,372)
Capital assets	6,982	7,572	(590)
Total	\$54,084	\$76,512	\$(22,428)
Liabilities & net assets			
Accounts payable and accrued liabilities	85,232	88,292	(3,060)
Net accumulated surplus	(11,367)	–	(11,367)
Internally Restricted Reserves	11,063	13,490	(2,427)

Decrease in cash and short-term investments of \$18.5M resulting mainly from \$15.5M in operating expenses and \$2.7M in purchasing of capital assets (please refer to page 7 of the financial statements).

The reduction in other receivables relates to lower receivables in 2015/16 versus 2014/15, broken down as follows:

- lower HST receivables – \$5.1M was outstanding in 2015/2016 compared to \$6.7M that was outstanding in 2014/2015
- lower receivables from MAG – \$2.4M was outstanding in 2015/2016 compared to \$3.9M that was outstanding in 2014/2015
- lower receivables from the Department of Justice – \$374K was outstanding in 2015/2016 compared to \$524K that was outstanding in 2014/2015

The reduction in accounts payables relates to:

- A reduction in the Work In Progress (WIP), \$52.9M in 2015/2016 compared to \$57.1M in 2014/2015.
- This reduction is a result of the exclusion of the AFA program. The methodology was changed to exclude the impact of AFAs and reflect a more accurate estimate of non-AFA WIP.

Net asset/(deficit) position

LAO's March 31, 2016 net deficit position is \$(0.3)M, consisting of:

- a restricted reserve of \$1.2M for specialty clinics and \$2.9M for future tariffs
- invested in capital assets, which is an appropriation for future depreciation costs, of \$7M
- \$2.4M transferred from the Internally Restricted Reserves, of which \$1.8M was used for the Specialty Clinic Project, and \$0.6M decrease in net capital assets
- an operating deficit of \$13.8M

(\$000s)	2016	2015	Increase/ (Decrease)
Change in net assets/(deficit)			
Net accumulated reserves	–	4,431	(4,431)
Operating surplus/(deficit)	(13,794)	3,869	(17,663)
Sub total	(13,794)	8,300	
Transferred to Internally Restricted Reserves	2,427	(8,300)	10,727
Sub total	(11,367)	–	

Internally restricted reserves (future tariff liability and specialty clinics)

Internally Restricted Reserves – Invested in Capital	6,982	7,572	(590)
Internally Restricted Reserves – Specialty Clinics	1,163	3,000	(1,837)
Internally Restricted Reserves – Tariff	2,918	2,918	
Sub total	11,063	13,490	
Total	(304)	13,490	(13,794)

Conclusion

LAO's operating deficit for the period ending March 31, 2016 was \$13.8M, of which \$5.6M related to the over-expenditure in the financial eligibility program and \$1.8M to the funding of the specialty clinic project; therefore the operating deficit excluding these items was \$6.4M against an approved operating deficit budget of \$8M.