

## ***Responsibility for Financial Reporting***

The accompanying financial statements of Legal Aid Manitoba are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards for the year ended March 31, 2020.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss.

The responsibility of the Auditor General is to express an independent professional opinion on the financial statements. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Original Document Signed

SAM RAPOSO

Executive Director and CEO

Legal Aid Manitoba

July 16, 2020



## Auditor General MANITOBA

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### INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

To the Management Council of Legal Aid Manitoba

#### *Opinion*

We have audited the financial statements of Legal Aid Manitoba, which comprise the statement of financial position as at March 31, 2020, and the statement of operations, the statement of changes in net financial assets and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Legal Aid Manitoba as at March 31, 2020, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards (PSAS).

#### *Basis for Opinion*

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, 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 Legal Aid Manitoba'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 an intention exists to liquidate Legal Aid Manitoba or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Legal Aid Manitoba's financial reporting process.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our 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 our 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 Legal Aid Manitoba'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 Legal Aid Manitoba's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Legal Aid Manitoba 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.

We 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 we identify during our audit.

A handwritten signature in cursive script, likely belonging to the Auditor General.

Office of the Auditor General  
Winnipeg, Manitoba  
July 16, 2020



## Statement of Financial Position

	<u>2020</u>	<u>2019</u>
<b>Financial assets:</b>		
Cash	\$ 3,912,008	\$ 2,479,243
Portfolio investments	\$3,531,201	\$2,885,609
Client accounts receivable (Note 3)	101,622	109,673
Receivable from the Province of Manitoba	4,070,000	3,300,000
Other receivables (Note 4)	217,320	200,277
Long-term receivable – charges on land (Note 6)	813,459	981,491
Long-term receivable – severance – Province of Manitoba (Note 7)	716,167	716,166
Long-term receivable – pension – Province of Manitoba (Note 14)	31,369,821	29,437,032
	<u>44,731,598</u>	<u>40,109,491</u>
<b>Liabilities:</b>		
Accounts payable	2,635,262	2,649,098
Accrued vacation pay	1,388,711	1,432,957
Deferred revenue from clients	872,907	859,977
Provision for employee future benefits (Note 8)	3,410,578	3,401,788
Provision for employee pension benefits (Note 14)	31,369,821	29,437,032
	<u>39,677,279</u>	<u>37,780,852</u>
<b>Net financial assets</b>	<b>5,054,319</b>	<b>2,328,639</b>
<b>Non-financial assets:</b>		
Prepaid expenses	217,469	214,429
Tangible capital assets (Note 5)	170,466	220,230
	<u>387,935</u>	<u>434,659</u>
<b>Accumulated surplus</b>	<b>\$ 5,442,254</b>	<b>\$ 2,763,298</b>

Approved by the Management Council

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Chairperson

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Council Member

The accompanying notes and schedule are an integral part of the financial statements.

## Statement of Operations

	2020 Budget (Note 21)	2020 Actual	2019 Actual
<b>Revenue</b>			
Province of Manitoba	\$ 33,174,000	\$ 35,055,923	\$ 34,238,607
Manitoba Law Foundation	1,912,900	3,662,568	1,873,151
Client services	1,160,000	910,511	922,712
Recoveries from third parties	668,710	1,024,196	518,026
Judgment costs and settlements	0	233,997	276,380
Interest income	40,000	87,264	77,062
Other	0	12,447	5,031
	<u>\$ 36,955,610</u>	<u>\$ 40,986,906</u>	<u>\$ 37,910,969</u>
<b>Expense</b>			
Direct Legal Services:			
Private Bar Service Delivery (Note 13)	15,934,000	16,178,350	16,025,229
Area Director and Community Law Centres, Schedule 1	14,714,263	14,595,912	14,770,324
Public Interest Law Centre Service Deliveries, Schedule 1	1,367,494	1,757,863	1,953,989
University of Manitoba Community Law Centre Service Deliveries, Schedule 1	251,840	212,305	222,217
Management Council and Administrative, Schedule 1	4,684,920	5,563,520	5,322,129
	<u>36,952,517</u>	<u>38,307,950</u>	<u>38,293,888</u>
Surplus (deficit) for the year	\$ 3,093	\$ 2,678,956	\$ (382,919)
Accumulated surplus, beginning of year		<u>2,763,298</u>	<u>3,146,217</u>
Accumulated surplus, end of year		<u>5,442,254</u>	<u>2,763,298</u>

The accompanying notes and schedule are an integral part of the financial statements.



## Statement of Changes in Net Assets

	<b>Budget</b>	<b>2020</b>	<b>2019</b>
Annual surplus (deficit)	\$ 3,093	\$ 2,678,956	\$ (382,919)
<b>Tangible capital assets:</b>			
Acquisition of tangible capital assets	-	(5,250)	(49,996)
Amortization of tangible capital assets	<u>30,750</u>	<u>55,014</u>	<u>65,259</u>
Net change in tangible capital assets	<u>-</u>	<u>49,764</u>	<u>15,263</u>
<b>Other non-financial assets:</b>			
Decrease (increase) in prepaid expenses	<u>-</u>	<u>(3,040)</u>	<u>13,266</u>
Net acquisition of other non-financial assets	<u>-</u>	<u>(3,040)</u>	<u>13,266</u>
Increase (decrease) in net financial assets		2,725,680	(354,390)
Net financial assets, beginning of year		2,328,639	2,683,029
Net financial assets, end of the year		<u>\$ 5,054,319</u>	<u>\$ 2,328,639</u>

The accompanying notes and schedule are an integral part of the financial statements.

## Statement of Cash Flow

	2020	2019
<b>Operating Activities:</b>		
Annual surplus (deficit)	\$ 2,678,956	\$ (382,919)
Non-cash changes in operations:		
Amortization of tangible capital assets	55,014	65,259
Change in non-cash working capital:		
Client accounts receivable	8,051	53,657
Province of Manitoba receivable	(770,000)	(823,975)
Other receivables	(17,043)	186,370
Prepaid expenses	(3,040)	13,266
Accounts payable and accrued vacation pay	(58,082)	(933,216)
Deferred revenue	12,930	144,598
Charges on land	168,032	(151,870)
Long-term funding commitments - pension	(1,932,789)	(1,704,181)
Severance liability	(18,610)	194,164
Sick leave liability	27,400	20,800
Provision for employee pension benefits	1,932,789	1,704,181
	<u>2,083,607</u>	<u>(1,613,866)</u>
<b>Capital activities:</b>		
Purchase of tangible capital assets	(5,250)	(49,996)
	<u>(5,250)</u>	<u>(49,996)</u>
<b>Investment Activities:</b>		
Proceeds from sale of investments	-	524,861
Purchase of investments	(645,592)	(564,281)
	<u>(645,592)</u>	<u>(39,420)</u>
Net Increase (Decrease) in cash	1,432,765	(1,703,282)
Cash - Beginning of Year	2,479,243	4,182,525
Cash - End of Year	\$ <u>3,912,008</u>	\$ <u>2,479,243</u>
<b>Supplemental Cash Flow Information</b>		
	2020	2019
Interest Received	\$ 87,264	\$ 77,062

The accompanying notes and schedule are an integral part of the financial statements.



## *Schedule of Expenses*

	<b>Budget</b>	<b>2020</b>	<b>2019</b>
Advertising	\$ 15,000	14,102	12,949
Amortization	30,750	55,014	65,259
Bad debts	194,000	646,842	405,102
Bank charges	4,800	6,869	5,622
Collection costs	0	2,618	4,079
Computer costs	86,000	111,638	15,039
Council expenses	90,000	75,602	81,146
Duty counsel	216,900	311,217	280,345
Equipment maintenance	145,872	88,007	90,222
File disbursements	436,280	801,720	987,565
Library	105,620	61,118	69,004
Meetings	34,940	22,414	18,512
Office expenses	361,585	263,404	293,145
Office relocation	3,000	2,358	2,608
Pension costs (Note 14)	1,454,938	2,938,847	2,845,165
Premise costs	1,567,647	1,577,360	1,575,319
Professional fees	377,945	319,512	335,775
Salaries, benefits, and levy	15,019,007	13,969,337	14,270,075
Severance benefits	100,000	264,071	285,248
Sick leave provision	0	27,400	20,800
Staff development	124,050	79,284	72,096
Staff recruitment	28,310	12,912	15,659
Telephone	367,932	286,448	333,829
Transcripts	57,180	10,883	15,342
Travel	196,760	180,624	168,754
<b>Totals</b>	<b>\$ 21,018,516</b>	<b>22,129,600</b>	<b>22,268,659</b>



## Notes to Financial Statements

### LEGAL AID MANITOBA

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#### Notes to Financial Statements for the year ended March 31, 2020

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#### 1. Nature of the Corporation

Legal Aid Manitoba (the Corporation) was established by an Act of the Legislative Assembly of Manitoba.

The purpose of the Corporation, as set out in the Act, is to service the public interest by:

- (a) Providing quality legal advice and representation to eligible low-income individuals;
- (b) Administering the delivery of legal aid in a cost-effective and efficient manner; and
- (c) Providing advice to the Minister on legal aid generally and on the specific legal needs of low-income individuals.

The Corporation is economically dependent upon the Province of Manitoba. Other revenue sources include the Manitoba Law Foundation, individual clients, and third party agencies.

#### 2. Significant Accounting Policies

##### (a) Change in Accounting Policies

- i. Adoption of Canadian Public Accounting Standards (PSAS) without Sections 4200 to 4270

The Province of Manitoba directed all government reporting entities, including Legal Aid Manitoba, to change its accounting policies from the Canadian Public Sector Accounting Standard (PSAS) for Government Not-for-Profit Organizations ("PSAS for GNFPOs"), which includes Sections PSAS 4200 to PSAS 4270 to PSAS without Sections PSAS 4200 to PSAS 4270 for the fiscal year beginning April 1, 2019.

The most significant changes as a result of adopting this basis of accounting includes the following changes to the financial statement presentation:

- ii. Accounting policy changes
  - a. Contributions for capital are not recognized as deferred contributions unless very specific criteria are met; and
  - b. Deferred contributions for future periods, now referred to as unearned revenue, are recognized when the funding is received. Any unspent funds at the end of the fiscal year are recognized as unearned revenue in the statement of financial position.

There was no impact to the balances of the financial statements as a result of these changes in accounting policies.



## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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- iii. Financial statement presentation changes:
  - a. The statement of operations is now presented with budgeted amounts;
  - b. The statement of financial position will present financial assets and liabilities to determine a net financial assets or debt position; non-financial assets and liabilities are shown separately and the accumulated surplus or deficit is the sum of the above-noted items; and
  - c. The statement of changes in net assets is replaced by the statement of change in net financial assets or debt, which presents the activity during the year that contributed to the change in the net financial assets or debt position on the statement of financial position.

(b) Revenue Recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis if the amount to be received can be reasonably estimated and collection is reasonably assured. Revenues related to fees or services received in advance of the fee being earned or the service is performed is deferred and recognized when the fee is earned or service performed.

Provincial government transfers are recognized as revenues in the fiscal year they are authorized and any eligibility criteria are met, stipulations, if any, have been met and a reasonable estimate of the amounts can be determined.

Any unrestricted non-government grants are recorded as revenue in the year received or in the years the funds are committed if the amount can be reasonably estimated and collection is reasonably assured. All non-government contributions or grants that are externally restricted such that they must be used for a specified purpose are recognized as revenue in the period in which the resources are used for the purpose specified. Any externally restricted amounts received prior to the criteria are satisfied is recorded as deferred revenue until met.

Interest income is recognized in the fiscal period in which it is earned.

(c) Recognition of Services to Clients

Clients may be required to pay a portion or all of the legal costs incurred on their behalf by the Corporation based on the clients' ability to pay.

i) Agreements to Pay – Partial

Clients who are able to pay, sign an agreement to pay for their portion of the applicable legal costs. The amount the client is required to pay is specified on the

## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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Legal Aid Certificate. The revenue and receivable are recognized when the service is provided.

#### ii) Agreements to Pay – Full

Under terms of Agreements to Pay - Full, clients are required to pay all of the legal costs and an administration fee of 25% of the Corporation's cost of the case. The revenue and receivable are recognized based on the date of the lawyer's billing which coincide with when the service is provided.

#### iii) Charges on Land

Charges on land are registered under section 17.1 and 17.2 of *The Legal Aid Manitoba Act* in a land titles office against property owned by clients. The revenue and receivable are recognized at the later of the date the lien is filed or the date of the lawyer's billing which coincide with when the service is provided. Collection of these accounts in the future is dependent on the client disposing of the property or arranging for payment.

#### (d) Financial Instruments

Financial instruments are recorded at fair value on initial recognition and are subsequently measured at Financial assets and liabilities are recognized at cost or amortized cost using the effective interest rate method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is recorded in the statement of operations.

The Corporation's financial instruments include cash, portfolio investments, client accounts receivable, receivable from the Province of Manitoba, other receivables, and accounts payable.

#### (e) Portfolio Investments

Portfolio investments consist of Guaranteed Investment Certificates (GIC's). These investments are recognized at cost plus accrued interest. Accrued interest is recognized through the statement of operations in the year earned

#### (f) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported



## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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amounts of revenues and expenses during the reporting period. Estimates include the allowance for doubtful accounts, accrual for private bar fees and the provision for employee future benefits and provision for employee pension benefits. Actual results could differ from these estimates.

(g) Allowance for Doubtful Accounts

The allowances for doubtful accounts are determined annually based on a review of individual accounts. The allowances represent management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectability of an account, specific allowances are established for individual accounts. In addition to the allowances identified on an individual account basis, the Corporation establishes a further allowance representing management's best estimate of additional probable losses in the remaining accounts receivable.

(h) Capital Assets

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

- Furniture and office equipment – 10 years
- Computer hardware & software – 4 years
- Leasehold improvements – over the term of the lease

(i) Pension Plan

Employees of the Corporation are pensionable under *The Civil Service Superannuation Act*. The Civil Service Superannuation Plan is a defined benefit pension plan. The Corporation accrues a provision for the liability for the employer's share of employee pension benefits, including future cost of living adjustments, based on actuarial calculations. When actual experience varies from actuarial estimates, the adjustment is amortized over the expected remaining service life of the employee group (EARS) which is currently 14 years (2019 – 14 years). Amortization commences the year following the year when the actuarial gain or loss arises.

(j) Severance Liability

The Corporation records the estimated liability for accumulated severance pay benefits for their employees. The amount of this estimated liability is based on actuarial calculations. The periodic actuarial valuation of this liability may

## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

determine that an adjustment is needed to the actuarial calculation when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are recognized on a straight-line basis over the expected average remaining service life (EARSL) of the related employee group. Amortization commences the year following the year when the actuarial gain or loss arises.

(k) Sick Leave Liability

The Corporation records the estimated liability for accumulated sick leave benefits for their employees. The amount of this estimated liability is based on actuarial calculations. The periodic actuarial valuation of this liability may determine that an adjustment is needed to the actuarial calculation when actual experience is different from that expected and/or because of changes in actuarial assumptions used.

3. Client Accounts Receivable

	<b>2020</b>	<b>2019</b>
Agreements to Pay – Partial	\$ 13,678	\$ 15,904
Agreements to Pay – Full	188,658	233,565
	<u>202,336</u>	<u>249,469</u>
Less: Allowance for Doubtful Accounts	100,714	139,796
Client accounts receivable	<u>\$ 101,622</u>	<u>\$ 109,673</u>

4. Other Receivables

	<b>2020</b>	<b>2019</b>
Court costs	\$ 629,315	\$ 734,318
Child and Family Services agencies	177,015	144,250
Employment and Income Assistance	17,644	30,908
GST recoverable, and miscellaneous	11,689	11,658
	<u>835,663</u>	<u>921,134</u>
Less: Allowance for Doubtful Accounts	618,343	720,857
Other receivables	<u>\$ 217,320</u>	<u>\$ 200,277</u>



## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

#### 5. Capital Assets

	2020		2019	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and office equipment	\$ 289,546	\$ 268,282	\$ 289,546	\$ 258,945
Computer hardware & software	380,248	334,541	380,248	309,242
Leasehold improvements	232,354	134,109	232,354	113,731
Work-in-Progress	5,250	0	0	0
	<u>\$ 907,398</u>	<u>\$ 736,932</u>	<u>\$ 902,148</u>	<u>\$ 681,918</u>
Net book value		<u>\$ 170,466</u>		<u>\$ 220,230</u>

#### 6. Charges on Land

	2020	2019
Charges on land	\$ 2,505,264	\$ 2,258,579
Less: Allowance for Doubtful Accounts	1,691,805	1,277,088
Charges on land	<u>\$ 813,459</u>	<u>\$ 981,491</u>

#### 7. Long-term Receivable - Severance Benefits

The amount recorded as a receivable from the Province of Manitoba for severance pay was initially based on the estimated value of the corresponding actuarially determined liability for severance pay as at March 31, 1998. Subsequent to March 31, 1998, the Province provides annual grant funding for severance expense. As a result, the change in the severance liability each year is fully funded. The interest component related to the receivable is reflected in the funding for severance expense. The receivable for severance pay will be paid by the Province when it is determined that the cash is required to discharge the related severance pay liabilities.

#### 8. Provision for Employee Future Benefits

	2020	2019
Severance benefits	\$ 2,990,778	\$ 3,009,388
Sick leave benefits	419,800	392,400
	<u>\$ 3,410,578</u>	<u>\$ 3,401,788</u>

## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

#### Severance benefits

Effective April 1, 1998, the Corporation commenced recording the estimated liability for accumulated severance pay benefits for their employees. The amount of this estimated liability is based on actuarial calculations. The periodic actuarial valuation of this liability may determine that an adjustment is needed to the actuarial calculation when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are recognized on a straight-line basis over the expected average remaining service life (EARSLS) of the related employee group. Amortization commences the year following the year when the actuarial gain or loss arises.

An actuarial report was completed for the severance pay liability as at March 31, 2020. The Corporation's actuarially determined net liability for accounting purposes as at March 31, 2020 was \$2,990,778 (2019 - \$3,009,388). The report provides a formula to update the liability on an annual basis.

Severance pay, at the employee's date of retirement, will be determined using the eligible employee's years of service and based on the calculation as set by the Province of Manitoba. The maximum payout is currently 23 weeks at the employee's weekly salary at the date of retirement. Eligibility will require that the employee has achieved a minimum of 9 years of service and that the employee is retiring from the Corporation.

	<b>2020</b>	<b>2019</b>
Balance at beginning of year	\$ 2,407,100	\$ 2,414,400
Benefits accrued	139,103	152,957
Interest accrued on benefits	144,426	144,864
Benefits paid	(282,681)	(91,084)
Actuarial gain	(26,248)	(214,037)
Balance at end of year	2,381,700	2,407,100
Unamortized actuarial losses	609,078	602,288
	<b>\$ 2,990,778</b>	<b>\$ 3,009,388</b>



## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

The Corporation's severance costs consist of the following:

	<b>2020</b>	<b>2019</b>
Benefits accrued	\$ 139,103	\$ 152,957
Interest accrued on benefits	144,426	144,864
Amortization of actuarial (gains)	(19,458)	(12,573)
	<u>\$ 264,071</u>	<u>\$ 285,248</u>

Significant long-term actuarial assumptions used in the March 31, 2020 valuation, and in the determination of the March 31, 2020 present value of the accrued severance benefit obligation were:

	<b>2020</b>	<b>2019</b>
Annual rate of return		
Inflation component	2.00%	2.00%
Real rate of return	3.75%	4.00%
	<u>5.75%</u>	<u>6.00%</u>
Assumed salary increase rates		
Annual productivity increase	0.50%	0.75%
Annual general salary increase	2.00%	2.00%
Service, merit, & promotion (SMP) – average	1.00%	1.00%
	<u>3.50%</u>	<u>3.75%</u>

#### Sick leave benefits

Effective April 1, 2014, the Corporation commenced recording the estimated liability for sick leave benefits for their employees that accumulate but do not vest. The amount of this estimated liability is based on actuarial calculations.

An actuarial report was completed for the sick leave liability as at March 31, 2020. The valuation is based on employee demographics, sick leave usage and actuarial assumptions. These assumptions include an annual rate of return of 5.75% (2019 – 6.00%) and a salary increase rate of 3.50% (2019 – 3.75%). The Corporation's actuarially determined net liability for accounting purposes as at March 31, 2020 was \$419,800 (2019 - \$392,400).



## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

#### 9. Revenue from the Province of Manitoba

	<b>2020</b>	<b>2019</b>
Grant	\$ 20,700,187	\$ 18,405,367
Salaries and other payments	12,195,171	13,417,294
Health and post secondary education tax levy	256,102	286,305
Employer portion of employee benefits	1,904,463	2,129,641
	<u>\$ 35,055,923</u>	<u>\$ 34,238,607</u>

Grant revenue from the Province of Manitoba includes the Corporation's share of provisions recorded for unfunded pension liabilities.

#### 10. Revenue from the Manitoba Law Foundation

	<b>2020</b>	<b>2019</b>
Statutory grant	\$ 3,356,668	\$ 1,607,151
Public Interest Law Centre	207,000	180,000
University Law Centre	98,900	86,000
	<u>\$ 3,662,568</u>	<u>\$ 1,873,151</u>

A statutory grant, pursuant to subsection 90(1) of *The Legal Profession Act*, is received annually from the Manitoba Law Foundation. The Corporation's share under the *Act* is 50% of the total interest on lawyers' trust accounts as received by the Foundation or a minimum of \$1,007,629, whichever is greater. In the event that interest received by the Foundation in the preceding year, after deduction of the Foundation's operational expenses, is not sufficient to pay the statutory minimum of \$1,007,629 to the Corporation, the *Act* provides for pro-rata sharing of the net interest.

Other grants from the Manitoba Law Foundation are received pursuant to subsection 90(4) of *The Legal Profession Act*. These grants are restricted for the Public Interest Law Centre and the University Law Centre. At March 31, 2020, all funds received through these grants have been spent in the current year.



## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

#### 11. Lease Commitments

The Corporation rents facilities under operating leases. Unpaid remaining commitments under the leases, which expire at varying dates are:

2021	\$	1,103,774
2022		1,084,881
2023		754,958
2024		625,854
2025		625,854
Thereafter		1,147,399
	\$	<u>5,342,720</u>

#### 12. Related Parties Transactions

The Corporation is related in terms of common ownership to all Province of Manitoba created departments, agencies and crown corporations. The Corporation enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

#### 13. Private Bar Fees and Disbursements

	2020			2019	
	Fees	Disbursements	Total	Total	
Legal aid certificates	\$ 14,555,881	\$ 887,549	\$ 15,443,430	\$ 15,485,296	
Duty counsel services	346,968	200,703	547,671	462,975	
Transcripts	–	187,249	187,249	76,958	
	\$ 14,596,649	\$ 1,275,501	\$ 16,178,350	\$ 16,025,229	

#### 14. Provision for Employee Pension Benefits

Pension costs consist of benefits accrued, interest accrued on benefits and experience (gain) loss. This liability is determined by an actuarial valuation annually with the balances for the intervening periods being determined by a formula provided by the actuary. The most recent

## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

valuation was completed as at December 31, 2019. The actuary has projected the pension obligation to March 31, 2020.

	<b>2020</b>	<b>2019</b>
Balance at beginning of year	\$ 32,234,898	\$ 29,552,098
Benefits accrued	854,608	1,001,922
Interest accrued on benefits	1,849,338	1,695,248
Benefits paid	(999,625)	(1,140,985)
Actuarial (gains) losses	(1,340,121)	1,126,615
Balance at end of year	32,599,098	32,234,898
Unamortized actuarial losses	(1,229,278)	(2,797,866)
	<b>\$ 31,369,820</b>	<b>\$ 29,437,032</b>

The Corporation's pension costs consist of the following:

	<b>2020</b>	<b>2019</b>
Benefits accrued	\$ 854,608	\$ 1,001,922
Interest accrued on benefits	1,849,338	1,695,248
Amortization of actuarial (gains) losses	228,468	147,995
	<b>\$ 2,932,414</b>	<b>\$ 2,845,165</b>
Employee contributions for the year	871,605	990,825

The key actuarial assumptions were a rate of return of 5.75% (2019 – 5.75%), 2.00% inflation (2019 – 2.00%), salary rate increases of 3.50% (2019 – 3.50%) and post retirement indexing 2/3 of the inflation rate. The projected benefit method was used and the liability has been extrapolated to March 31, 2020.

The Province of Manitoba has accepted responsibility for funding of the Corporation's pension liability and related expense which includes an interest component. The Corporation has therefore recorded a receivable from the Province equal to the estimated value of its actuarially determined pension liability \$31,369,820 (2019 – \$29,437,032), and has recorded revenue for the current fiscal year equal to its increase in the unfunded pension liability during the year of \$1,932,788 (2019 – \$1,704,181). The Province makes payments on the receivable when it is determined that the cash is required to discharge the related pension obligation.



## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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#### 15. Reserves:

The following reserves have been set aside in the accumulated surplus for future operating purposes:

##### Wrongful Conviction Cases

During the fiscal year ended March 31, 2006 the Province of Manitoba approved a reallocation of \$130,000 from the Corporation's unrestricted net assets. This funding was provided for section 696 applications under the *Criminal Code* for wrongful conviction appeals. In the current fiscal year, the Corporation did not incur any expenses (2019 - \$26,705) for private bar fees and disbursements related to wrongful conviction cases. The balance remaining is \$51,854.

##### Access to Justice Initiatives

Effective the fiscal year ended March 31, 2015, the Management Council internally restricted \$1,500,000 of the accumulated surplus for the purpose of implementing access to justice initiatives and addressing the low financial eligibility guidelines. These funds are not available for other purposes without approval by the Management Council.

##### Mega Case Fund

Effective the fiscal year ended March 31, 2016, the Management Council internally restricted \$600,000 of the accumulated surplus to fund legal aid services to eligible individuals charged with indictable offences that are complex and costly. These funds are not available for other purposes without approval by the Management Council.

#### 16. Public Sector Compensation Disclosure

For the purposes of *The Public Sector Compensation Disclosure Act*, all compensation for employees, Management Council members, and the private bar fees and disbursements from the Corporation is disclosed in a separate statement. The Corporation's Public Sector Compensation Disclosure statements are published in its annual report immediately following the audited financial statements and notes.

#### 17. Financial Risk Management

The Corporation has potential exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;

## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

- Interest rate risk; and
- Foreign currency risk

The Corporation manages its exposure to risks associated with financial instruments that have the potential to affect its operating performance. The Corporation's Management Council has overall responsibility for the establishment and oversight of the Corporation's objectives, policies and procedures for measuring, monitoring and managing these risks.

#### Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Corporation to credit risk consist principally of cash and accounts receivable.

The maximum exposure of the Corporation to credit risk at March 31, 2020 is:

Cash	\$ 3,912,008
Portfolio investments	3,531,201
Client accounts receivable	101,622
Receivable from the Province of Manitoba	4,070,000
Other receivables	217,320
Long-term receivables:	
• Charges on land	813,459
• Severance - Province of Manitoba	716,167
• Pension - Province of Manitoba	31,369,821
	<u>\$ 44,731,598</u>

**Cash:** The Corporation is not exposed to significant credit risk as the cash is held by a large financial banking institution.

**Portfolio investments:** The Corporation is not exposed to significant credit risk as the portfolio investments consists of several Guaranteed Investment Certificates held by a large financial banking institution.

**Client accounts receivable** includes clients that contribute toward the cost of their case under the Agreements to Pay – Partial and Agreements to Pay – Full payment programs based on a contract. The Corporation manages its credit risk on these accounts receivables which are primarily small amounts held by a large client base. It is typically expected that



## LEGAL AID MANITOBA

### Notes to Financial Statements for the year ended March 31, 2020

clients will settle their account based on their payment program. The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses.

Receivable from the Province of Manitoba: The Corporation is not exposed to significant credit risk as the receivable is from the provincial government.

Other receivables include court costs, Child and Family Services agencies, Employment and Income Assistance, and miscellaneous. The Corporation is exposed to significant credit risk related to court costs and therefore, an allowance of 95% is set up to recognize the likelihood of collection. In the case of receivables from Child and Family Services agencies and Employment and Income Assistance, they are funded through the Province of Manitoba. Miscellaneous includes GST and other recoverable costs. GST is received quarterly and other recoverable costs are usually paid within 90 days of receipt of an order to pay by the courts or other authority.

Long-term receivable – charges on land: The Corporation manages its credit risk on these accounts receivables which primarily consists of small amounts held by a large client base for which payment is secured by a lien on property. The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is calculated on a specific identification basis and a general provision based on historical experience.

Long-term receivables – severance and pension – Province of Manitoba: The Corporation is not exposed to significant credit risk as the receivables are with the provincial government.

The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, client analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

The change in the allowance for doubtful accounts during the year was as follows:

	<b>2020</b>	<b>2019</b>
Balance, beginning of the year	\$ 2,137,741	\$ 2,444,164
Provision for bad debts	646,842	405,102
Amounts (written off) recovered	(373,720)	(711,525)
Balance, end of the year	<u>\$ 2,410,863</u>	<u>\$ 2,137,741</u>

## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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#### **Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due.

The Corporation manages liquidity risk by maintaining adequate cash balances. The Corporation prepares and monitors detailed forecasts of cash flows from operations and anticipated investing and financing activities. Identified funding requirements are requested, reviewed and approved by the Minister of Finance to ensure adequate funding will be received to meet the obligations. The Corporation continuously monitors and reviews both actual and forecasted cash flows through periodic financial reporting.

In March 2020, the novel strain of coronavirus (COVID-19) was declared a pandemic by the World Health Organization. The spread of COVID-19 has severely impacted many local economies around the globe, and global stock markets have experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The Corporation has continued to operate throughout the pandemic as an essential service.

As disclosed in note 1, the Corporation is dependent on continued financial support from the Province of Manitoba. The Corporation currently continues to receive funding from the Manitoba Government and other agencies, however, given the high level of uncertainty surrounding the duration of the pandemic, it is not possible to reasonably estimate the potential impact on the liquidity, financial condition and operations of the Corporation.

#### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the fair values of its financial instruments. The significant market risks the Corporation is exposed to are: interest rate risk and foreign currency risk.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to cash and accounts payable.

The interest rate risk is considered to be low on cash because of its short-term nature and low on accounts payable because they are typically paid when due.



## LEGAL AID MANITOBA

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### Notes to Financial Statements for the year ended March 31, 2020

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#### **Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

#### 20. Measurement Uncertainty – Private bar

A certificate is issued to individuals seeking legal aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines based on the type of legal case. The estimated liability on work performed but not yet billed is \$2,300,000 (2019 – \$2,300,000). The estimation is based on an analysis of historical costs and time frames to complete similar cases. The estimated liability is included in accounts payable. It is offset by an associated accounts receivable from the Province of Manitoba, which is included in the Receivable from the Province of Manitoba balance. Additionally, management estimates a future liability related to work not yet performed on outstanding certificates as at March 31, 2020 of \$6,805,000 (2019 – \$6,942,000). This amount has not been recorded in the financial statements.

The estimated liability is subject to measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable amount, as there is whenever estimates are used. While management's best estimates have been used for reporting the private bar liability, it is possible that there will be a material difference between estimated amount and actual costs.

#### 21. Budgeted Figures

The budgeted amounts represent the operating budget approved in February 2019 by Legal Aid Manitoba's Management Council.





Auditor General  
MANITOBA

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## INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

To the Management Council of Legal Aid Manitoba

### *Opinion*

We have audited the Statement of Compensation Paid to Council Members and Employees and the Statement of Private Bar Fees and Disbursements in Excess of \$75,000 of Legal Aid Manitoba for the year ended March 31, 2020 ("the statement").

In our opinion, the financial information in the statement of Legal Aid Manitoba for the year ended March 31, 2020, is prepared, in all material respects, in accordance with Section 2 and 4 of *The Public Sector Compensation Disclosure Act*.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statement* section of our report. We are independent of Legal Aid Manitoba in accordance with the ethical requirements that are relevant to our audit of the statement in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter - Basis of Accounting*

We draw attention to Note 1 of the statement, which describes the basis of accounting. The statement is prepared to assist Legal Aid Manitoba to meet the requirements of Section 2 and 4 of *The Public Sector Compensation Disclosure Act*. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### *Responsibilities of Management and Those Charged with Governance for the Statement*

Management is responsible for the preparation of the statement in accordance with Section 2 and 4 of *The Public Sector Compensation Disclosure Act* and for such internal control as management determines is necessary to enable the preparation of the statement that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing Legal Aid Manitoba's financial reporting process.



Auditor General  
MANITOBA

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### *Auditor's Responsibilities for the Audit of the Statement*

Our objectives are to obtain reasonable assurance about whether the statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 this financial information.

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

- Identify and assess the risks of material misstatement of the statement, 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 our 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 Legal Aid Manitoba's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We 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 we identify during our audit.

A handwritten signature in cursive script, likely belonging to the Auditor General, written in dark ink.

Office of the Auditor General

Winnipeg, Manitoba

July 16, 2020