

**NEWFOUNDLAND AND LABRADOR
LEGAL AID COMMISSION**

FINANCIAL STATEMENTS

MARCH 31, 2016

Management's Report

Management's Responsibility for the Newfoundland and Labrador Legal Aid Commission Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information periodically and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Commission in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Legal Aid Commission.

On behalf of the Newfoundland and Labrador Legal Aid Commission.



Nicholas P. Summers
Provincial Director



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
The Newfoundland and Labrador Legal Aid Commission
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Legal Aid Commission which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net debt, 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.

Independent Auditor's Report (cont.)

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, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Legal Aid Commission as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a horizontal line extending to the right.

TERRY PADDON, CPA, CA
Auditor General

September 9, 2016
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION

STATEMENT OF FINANCIAL POSITION

As at March 31

2016

2015

FINANCIAL ASSETS

Cash	\$ 2,035,799	\$ 1,603,632
Accounts receivable (Note 3)	611,937	760,268
	2,647,736	2,363,900

LIABILITIES

Accounts payable and accrued liabilities (Note 4)	2,015,730	2,358,383
Employee future benefits (Note 5)	1,572,272	1,656,368
Provision for future services	495,853	578,000
	4,083,855	4,592,751
Net debt	(1,436,119)	(2,228,851)

NON-FINANCIAL ASSETS

Prepaid expenses (Note 7)	168,893	180,883
Tangible capital assets (Note 6)	239,428	189,974
	408,321	370,857
Accumulated deficit	\$ (1,027,798)	\$ (1,857,994)

Contingent liabilities (Note 8)
 Contractual obligations (Note 9)
 Trusts under administration (Note 10)

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

Signed on behalf of the Board: 
 Chairperson


 Member

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
STATEMENT OF OPERATIONS

For the Year Ended March 31

	2016 Budget	2016 Actual	2015 Actual
(Note 16)			
REVENUES			
Province of Newfoundland and Labrador			
Operating grants	\$ 17,169,770	\$ 17,169,700	\$ 15,594,370
Law Foundation of Newfoundland and Labrador grant	300,000	204,269	331,526
Legal services	150,000	279,233	361,726
Interest	20,000	39,716	24,727
	<u>17,639,770</u>	<u>17,692,918</u>	<u>16,312,349</u>
EXPENSES (Note 11)			
Administration	7,239,961	6,997,202	6,892,153
Criminal law	6,090,056	5,626,551	5,042,979
Youth law	343,292	332,473	292,681
Civil law	3,970,893	3,906,496	3,401,650
	<u>17,644,202</u>	<u>16,862,722</u>	<u>15,629,463</u>
Annual (deficit) surplus	(4,432)	830,196	682,886
Accumulated deficit, beginning of year	(1,857,994)	(1,857,994)	(2,540,880)
Accumulated deficit, end of year	<u>\$ (1,862,426)</u>	<u>\$ (1,027,798)</u>	<u>\$ (1,857,994)</u>

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

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
STATEMENT OF CHANGE IN NET DEBT

For the Year Ended March 31

	2016 Budget	2016 Actual	2015 Actual
	(Note 16)		
Annual (deficit) surplus	\$ (4,432)	\$ 830,196	\$ 682,886
Tangible capital assets			
Acquisition of tangible capital assets	-	(141,055)	(60,398)
Amortization of tangible capital assets	-	91,601	102,542
	-	(49,454)	42,144
Prepaid expenses			
Acquisition of prepaid expenses	-	(168,893)	(180,883)
Use of prepaid expenses	-	180,883	113,131
	-	11,990	(67,752)
Decrease (increase) in net debt	(4,432)	792,732	657,278
Net debt, beginning of year	(2,228,851)	(2,228,851)	(2,886,129)
Net debt, end of year	\$ (2,233,283)	\$ (1,436,119)	\$ (2,228,851)

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

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION

STATEMENT OF CASH FLOWS

For the Year Ended March 31

2016

2015

Operating transactions

Annual surplus	\$ 830,196	\$ 682,886
Adjustment for non-cash items		
Amortization	91,601	102,542
Bad debt expense	54,956	110,916
	976,753	896,344
Change in non-cash operating items		
Accounts receivable	93,375	449,492
Accounts payable and accrued liabilities	(342,653)	(246,951)
Employee future benefits	(84,096)	(79,671)
Provision for future services	(82,147)	(400,308)
Prepaid expenses	11,990	(67,752)
Cash provided from operating transactions	573,222	551,154
Capital transactions		
Purchase of tangible capital assets	(141,055)	(60,398)
Cash applied to capital transactions	(141,055)	(60,398)
Net increase in cash	432,167	490,756
Cash, beginning of year	1,603,632	1,112,876
Cash, end of year	\$ 2,035,799	\$ 1,603,632

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

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

1. Nature of operations

The Newfoundland and Labrador Legal Aid Commission (the Commission) operates under the authority of the *Legal Aid Act*. The purpose of the Commission is to establish and administer a plan for the provision of legal aid for the residents of the Province of Newfoundland and Labrador.

The affairs of the Commission are managed by a Board of Commissioners consisting of the Assistant Deputy Minister of Justice and Public Safety (ex-officio), the Provincial Director of the Commission (ex-officio) and five members appointed by the Lieutenant-Governor in Council.

The Commission is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Commission is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board. The Commission does not prepare a statement of remeasurement gains and losses as the Commission does not enter into relevant transactions or circumstances that are being addressed by this statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Commission's financial instruments recognized in the statement of financial position consist of cash, accounts receivable, and accounts payable and accrued liabilities. The Commission generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Commission subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash. Financial assets measured at amortized cost include accounts receivable. Financial liabilities measured at cost include accounts payable and accrued liabilities.

The carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their nature and/or the short term maturity associated with these instruments.

Interest attributable to financial instruments is reported in the statement of operations.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

2. Summary of significant accounting policies (cont.)

(c) Cash

Cash includes cash in bank.

(d) Employee future benefits

Employee future benefits include severance pay and accumulating, non-vesting sick leave benefits.

(i) Severance is accounted for on an accrual basis, based upon years of service and current salary levels.

(ii) The cost of accumulating, non-vesting sick leave benefits is calculated based upon management's best estimate of its employees' sick leave utilization rates, sick leave balances, annual sick leave entitlements and current salary levels. Under the former annual leave policy, all employees hired before September 30, 1994, were credited with 2 days sick leave per month. After this date, the Commission moved to the new paid leave policy which did not include a sick leave entitlement. Accumulated benefits under the former policy may be used in future years and, if not used, the benefits cease upon termination of employment.

Under the *Legal Aid Act*, Commission employees shall be considered to be employed in the public service for the purpose of the *Public Service Pensions Act, 1991*. Employee contributions are matched by the Commission and then remitted to the Public Service Pension Plan Corporation from which pensions will be paid to employees when they retire. This plan is a multi-employer, defined benefit plan, providing a pension on retirement based on the member's age at retirement, length of service and the average of their best six years of earnings for service on or after January 1, 2015, and, for service before January 1, 2015, the higher of the average of the frozen best 5 years of earnings up to January 1, 2015, or the average of the best 6 years of earnings for all service.

The contributions from the Commission to the plan are recorded as an expense for the year.

(e) Provision for future services

Provision for future services represents amounts relating to contracts for legal services which have been entered into with clients for which the legal services have yet to be completed. The provision for future services will be recognized in the period during which the legal services have been completed.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

2. Summary of significant accounting policies (cont.)

(f) Tangible capital assets

Tangible capital assets are recorded at cost at the time of acquisition.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Office furniture and equipment	5 years
Software development	5 years
Computer equipment	5 years
Leasehold improvements	Remaining life of the rental agreement

Tangible capital assets are written down when conditions indicate that they no longer contribute to the ability of the Commission to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

(g) Prepaid expenses

Prepaid expenses are charged to expense over the periods expected to benefit from it.

(h) Revenues

Revenues are recognized in the period in which the transactions or events occurred that give rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers (Province of Newfoundland and Labrador operating grants) are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except when and to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulations related to the liabilities are settled.

Interest revenue is recognized as earned.

(i) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are recorded as an expense in that year.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

2. Summary of significant accounting policies (cont.)

(j) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include the collectability of accounts receivable, expected useful life of tangible capital assets, and estimated employee future benefits.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Accounts receivable

	<u>2016</u>	<u>2015</u>
Trade	\$ 1,014,707	\$ 1,107,615
Harmonized Sales Tax	43,257	43,724
	<u>1,057,964</u>	<u>1,151,339</u>
Less: Allowance for doubtful accounts	(446,027)	(391,071)
	<u>\$ 611,937</u>	<u>\$ 760,268</u>

4. Accounts payable and accrued liabilities

	<u>2016</u>	<u>2015</u>
Trade and other	\$ 675,037	\$ 1,005,638
Salaries and benefits	1,340,693	1,352,745
	<u>\$ 2,015,730</u>	<u>\$ 2,358,383</u>

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

5. Employee future benefits

Employee future benefits consist of:

	<u>2016</u>	<u>2015</u>
Severance pay (a)	\$ 1,485,002	\$ 1,569,723
Accumulating, non-vesting sick leave benefit liability (b)	87,270	86,645
	<u>\$ 1,572,272</u>	<u>\$ 1,656,368</u>

(a) Severance pay

Severance pay consists of the liability related to the following employees:

	<u>2016</u>	<u>2015</u>
Employees with 9 or more years of service	\$ 1,132,772	\$ 1,279,963
Employees with less than 9 years of service	352,230	289,760
	<u>\$ 1,485,002</u>	<u>\$ 1,569,723</u>

(b) Accumulating, non-vesting sick leave benefit liability

	<u>2016</u>	<u>2015</u>
Accumulating, non-vesting sick leave benefit liability	\$ 87,270	\$ 86,645

(c) Employee future benefits (recovery) expense

Portion of salaries and benefits expense (recovery) related to employee future benefits:

	<u>2016</u>	<u>2015</u>
Severance pay (recovery) expense	\$ (84,721)	\$ (59,357)
Accumulating non-vesting sick leave benefit expense (recovery)	625	(20,314)
	<u>\$ (84,096)</u>	<u>\$ (79,671)</u>

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

5. Employee future benefits (cont.)

(d) Employee future benefits

(i) Severance pay

Severance is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to be paid severance vests with employees with nine years of continuous service, and accordingly a liability has been recorded by the Commission for these employees. For employees with less than nine years of continuous service, the Commission has made a provision in the accounts for the payment of severance which is based upon the Commission's best estimate of the probability of having to pay severance to the employees and current salary levels. Severance is payable when the employee ceases employment with the Commission provided no severance has been paid by Government or another Crown corporation or agency for the same period and the employee has at least nine years of continuous service. The Commission does not recognize prior service with the public service for the purpose of calculating severance entitlement.

(ii) Accumulating, non-vesting sick leave benefits

All employees hired before September 30, 1994, were credited with 2 sick days per month for use as paid absences during the year due to illness. Subsequent to September 30, 1994, the Commission moved to the new paid leave policy which did not include a sick leave entitlement. Sick leave benefits accumulated prior to September 30, 1994, may be used in future years and, if not used, the benefits cease upon termination of employment. For the year ended March 31, 2016, a sick leave liability was calculated for 16 employees.

(iii) Pension contributions

Under the *Legal Aid Act*, the Commission's employees are subject to the *Public Service Pensions Act, 1991*. The plan is administered by the Public Service Pension Plan Corporation, including payment of pension benefits to employees to whom the *Act* applies. The Public Service Pension Plan is a multi-employer, defined benefit plan.

The plan provides a pension to employees based on their age at retirement, length of service and rates of pay. The maximum contribution rate for eligible employees was 11.85% (2015 - 11.85%). The Commission's contributions equal the employee contributions to the plan. Total pension expense for the Commission for the year ended March 31, 2016 was \$700,254 (2015 - \$774,073).

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

6. Tangible capital assets

Original Cost

	Balance March 31, 2015	Additions	Disposals	Balance March 31, 2016
Office furniture and equipment	\$ 1,168,184	\$ 63,140	\$ -	\$ 1,231,324
Computer equipment	675,698	75,309	-	751,007
Software development	186,950	558	-	187,508
Leasehold improvements	82,138	2,048	-	84,186
	\$ 2,112,970	\$ 141,055	\$ -	\$ 2,254,025

Accumulated Amortization

	Balance March 31, 2015	Amortization	Disposals	Balance March 31, 2016	Net book value March 31, 2016	Net book value March 31, 2015
Office furniture and equipment	\$ 1,051,082	\$ 54,349	\$ -	\$ 1,105,431	\$ 125,893	\$ 117,102
Computer equipment	614,265	31,079	-	645,344	105,663	61,433
Software development	185,870	309	-	186,179	1,329	1,080
Leasehold improvements	71,779	5,864	-	77,643	6,543	10,359
	\$ 1,922,996	\$ 91,601	\$ -	\$ 2,014,597	\$ 239,428	\$ 189,974

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

7. Prepaid expenses

	<u>2016</u>	<u>2015</u>
Bar fees and insurance	\$ 96,546	\$ 92,596
Computer support	2,558	-
Library fees	13,127	11,097
Prepaid human resources expenses	23,114	40,158
Prepaid travel	8,917	12,257
<u>Workplace Health, Safety and Compensation Commission</u>	<u>24,631</u>	<u>24,775</u>
	<u>\$ 168,893</u>	<u>\$ 180,883</u>

8. Contingent liabilities

- (a) Statements of Claim have been served on the Commission by two former employees for alleged wrongful dismissal. The Commission, through legal counsel, has filed a defense to each claim. The potential settlement amount for the cases has not been disclosed as it may have an adverse effect on the outcome of the claim.
- (b) A Statement of Claim has been served on the Commission, as represented by the Department of Transportation and Works, by a company in connection with a tender for office space. The Commission, through legal counsel, has filed a defence. The potential settlement amount has not been disclosed as it may have an adverse effect on the outcome of the claim.
- (c) A Statement of Claim has been served on the Commission by a former client for alleged professional negligence in representation pertaining to the division of matrimonial property. The Commission, through legal counsel, has filed a defence. The value of the claim is unknown due to the nature of the damages sought.
- (d) The Commission has instituted a new program, the Equity Program, which assists persons who have significant equity in matrimonial property but no liquid assets, to retain private counsel. This is done by offering private counsel a guarantee to cover up to \$5,000 of the counsel's fees and disbursements if they accept the person as a client without a retainer. Any funds disbursed by the Commission are to be recovered from funds generated by the eventual settlement of matrimonial property issues. Some losses to the Commission are anticipated but in the first year of operation all disbursements made have been recovered. There are currently sixteen cases in the Equity Program and therefore a potential liability of \$80,000 if all cases required a disbursement of the full \$5,000 and none of those funds were recovered.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

9. Contractual obligations

The Commission has entered into agreements requiring lease payments for office and equipment rental as follows:

2017	\$ 1,399,887
2018	1,039,973
2019	772,246
2020	765,714
2021	<u>377,769</u>
	<u>\$ 4,355,589</u>

10. Trusts under administration

Assets held in trust of \$385,195 (2015 - \$667,627) include amounts received by the Commission for legal services which have yet to be completed. When a contract for legal services is entered into with a client, provision may be made in the contract for periodic payments to be made to the Commission while the legal services are being provided. Once the legal services have been completed, any payments received at that time will be combined with the general funds of the Commission. Any payments received under these contracts subsequent to the completion of legal services will be recorded with the general funds of the Commission immediately. Assets held in trust also include amounts received by the Commission, such as settlements, which will be disbursed once the related services have been completed.

11. Expenses by object

	<u>2016</u> <u>Budget</u> (Note 16)	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
Amortization	\$ 102,541	\$ 91,601	\$ 102,542
Bad debt expense	-	54,956	110,916
Bar fees and insurance	148,530	150,133	157,140
Commissioners' fees and expenses	60,030	57,647	43,742
Conference and education	183,200	143,877	204,694
Family Justice Services			
Central Project (Note 12)	-	136,019	126,870
Legal fees and disbursements	1,614,800	1,124,919	1,118,995
Library fees	30,000	29,432	25,636
Miscellaneous	6,000	4,581	85,665
Office and equipment rental	1,571,537	1,546,915	1,502,064
Office expense	363,480	355,417	324,208
Salaries and benefits	13,285,284	12,908,884	11,641,157
Telephone and light	124,800	129,527	119,619
Travel	154,000	128,814	66,215
	<u>\$ 17,644,202</u>	<u>\$ 16,862,722</u>	<u>\$ 15,629,463</u>

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2016

12. Family Justice Services Central Project

On March 31, 2004, an Agreement was signed between the Government of Canada and the Province to provide funding to the Province for a Family Justice Services Central Project. The Agreement, which expired on March 31, 2007, covered a portion of the costs of a project designed to provide enhanced access to family law justice services in Central Newfoundland. During the year ended March 31, 2016, the Commission funded this project through its operating grant from the Province. Actual expenditures paid by the Commission for the project were as follows:

	<u>2016</u> <u>Budget</u> (Note 16)	<u>2016</u> <u>Actual</u>	<u>2015</u> <u>Actual</u>
Bar fees	\$ -	\$ 1,433	\$ 1,438
Office expense	-	-	84
Salaries and benefits	-	134,586	124,361
Travel	-	-	987
	<u>\$ -</u>	<u>\$ 136,019</u>	<u>\$ 126,870</u>

13. Related party transactions

Province of Newfoundland and Labrador:

During the year, the Commission received \$17,169,700 (2015 - \$15,594,370) from the Province in Operating grant revenue.

The Office of the Chief Information Officer (OCIO), an entity within the Executive Council of the Province, provides Information Technology (IT) support services to the Commission. These IT costs are reflected in these financial statements in the amount of \$110,119 (2015 - \$103,934).

The Province provides the Commission with the use of office space for the Family Justice Services Central Project (see Note 12) at no cost.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

14. Financial risk management

The Commission recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Commission is exposed to through its financial instruments are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Commission's main credit risk relates to cash and accounts receivable. The Commission's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Commission is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank.

The Commission is exposed to significant credit risk related to its accounts receivable relating to amounts owed from clients. Legal aid clients enter into a payment program based on a contract for the provision of legal services, and the accounts receivable balance is comprised primarily of small amounts held by a large client base. Any estimated impairment of these accounts receivable has been provided for through a provision for doubtful accounts as disclosed in Note 3.

There have been no significant changes from the previous year in the exposure to credit risk or policies, procedures and methods used to manage credit risk.

Liquidity risk

Liquidity risk is the risk that the Commission will be unable to meet its contractual obligations and financial liabilities. The Commission's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities, and its contractual obligations. The Commission manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its contractual obligations and financial liabilities. The future minimum payments required from the Commission in relation to its contractual obligations are outlined in Note 9.

There have been no significant changes from the previous year in the exposure to liquidity risk or policies, procedures and methods used to manage liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Commission is not exposed to significant foreign exchange risk or other price risk. The Commission is not exposed to significant interest rate risk related to cash because of its nature.

There have been no significant changes from the previous year in the exposure to market risk or policies, procedures and methods used to manage market risk.

NEWFOUNDLAND AND LABRADOR LEGAL AID COMMISSION

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

15. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Commission. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Commission's objectives.

16. Budget

Budgeted figures, which have been prepared on a cash basis, are provided for comparison purposes and have been approved by the Commission's Board.