

Financial Statements of

# **ALBERTA LAW FOUNDATION**

Year ended March 31, 2016



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of Alberta Law Foundation

We have audited the accompanying financial statements of Alberta Law Foundation, which comprise the statement of financial position as at March 31, 2016, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 accounting standards for not-for-profit organizations, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Law Foundation as at March 31, 2016, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*KPMG LLP*

Chartered Professional Accountants

June 15, 2016  
Calgary, Canada

# ALBERTA LAW FOUNDATION

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 953,406	\$ 363,949
Investments (note 2)	1,963,265	4,560,937
Rent security deposit	6,416	6,416
Accrued interest - bank accounts	1,592	3,396
Interest receivable:		
Lawyers' pooled trust accounts (note 1(b))	956,345	1,383,798
Receivable for investments sold	2,000,000	-
	<u>5,881,024</u>	<u>6,318,496</u>
Investments (note 2)	84,271,785	94,933,333
	<u>\$ 90,152,809</u>	<u>\$ 101,251,829</u>

## Liabilities and Net Assets

### Current liabilities:

Deferred revenue (note 3)	\$ 204,539	\$ 491,846
Accounts payable and accrued liabilities	80,084	81,109
Grants payable (note 6)	14,775,487	15,482,774
Payable to Legal Aid Alberta (note 7)	3,316,971	6,000,000
	<u>18,377,081</u>	<u>22,055,729</u>
Net assets:		
Grant stabilization fund	44,971,731	45,433,389
Strategic reserve fund	25,116,677	26,009,342
Unrestricted	1,687,320	7,753,369
	<u>71,775,728</u>	<u>79,196,100</u>
Commitments (note 8)		
	<u>\$ 90,152,809</u>	<u>\$ 101,251,829</u>

See accompanying notes to financial statements

Approved by the Board:

 Director

 Director

# ALBERTA LAW FOUNDATION

## Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Revenues:		
Interest earned on lawyers' pooled trust accounts	\$ 13,267,884	\$ 19,208,402
Investment Income (note 2)	4,251,202	5,049,934
Income recognized from deferred revenue (note 3)	290,000	380,000
Undisbursable trust balances from Law Society of Alberta	154,293	180,929
	<u>17,963,379</u>	<u>24,819,265</u>
Expenses:		
Salaries	526,583	507,588
Investment advisory fee	221,204	231,678
Contract fees	100,671	57,470
Rent and parking	75,271	73,036
Board travel and meetings	56,764	55,410
Professional fees	24,806	24,755
Insurance	24,105	23,994
General administration	24,123	21,393
Computing / Web Services	31,713	17,498
	<u>1,085,240</u>	<u>1,012,822</u>
Allocation to Legal Aid Alberta (note 7)	3,316,971	6,000,000
Project payments related to deferred revenue (note 3)	290,000	380,000
Excess of revenues over expenses before grant allocations	<u>13,271,168</u>	<u>17,426,443</u>
Deduct:		
Project grant allocations (note 6)	1,976,918	2,734,083
Program grant allocations (note 6)	14,990,577	15,144,463
Total grant allocations	<u>16,967,495</u>	<u>17,878,546</u>
Add:		
Grant refunds (note 4)	388,440	375,083
Allocations withdrawn (notes 4 and 6)	36,411	26,340
	<u>424,851</u>	<u>401,423</u>
Net Grant Allocations:	<u>16,542,644</u>	<u>17,477,123</u>
Deficiency of revenues over expenses before unrealized (loss) gain on investments	(3,271,476)	(50,680)
Change in unrealized (loss) gain on investments	(4,148,896)	2,521,081
(Deficiency) surplus of revenues over expenses	<u>\$ (7,420,372)</u>	<u>\$ 2,470,401</u>

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

## Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

	Unrestricted	Grant Stabilization Fund	Strategic Reserve Fund	2016 Total	2015 Total
Balance, beginning of year	\$ 7,753,369	\$ 45,433,389	\$ 26,009,342	\$ 79,196,100	\$ 76,725,699
(Deficiency) surplus of revenue over expenses	(7,420,372)	-	-	(7,420,372)	2,470,401
Internally designated transfers (note 5)	892,665	-	(892,665)	-	-
Internally designated transfers (note 5)	461,658	(461,658)	-	-	-
Balance, end of year	\$ 1,687,320	\$ 44,971,731	\$ 25,116,677	\$ 71,775,728	\$ 79,196,100

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
(Deficiency) surplus of revenue over expenses	\$ (7,420,372)	\$ 2,470,401
Items not involving cash:		
Change in unrealized gain/loss on investments	4,148,896	(2,251,081)
Net realized gain on sale of investments	(77,265)	(566,274)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(1,025)	1,460
Grants payable	(707,287)	915,654
Funds held in trust payable	-	(20,731)
Deferred revenue	(287,307)	(372,251)
Payable to Legal Aid Alberta	(2,683,029)	-
Interest receivable - lawyers' pooled trust accounts	427,453	267,392
Accrued Interest - bank accounts	1,804	(1,638)
Receivable for investments sold	(2,000,000)	-
	(8,598,132)	172,932
Investments:		
Purchase of investments	(9,495,263)	(19,767,108)
Proceeds from disposal of investments	16,085,180	22,266,291
Decrease in cash held for deferred revenue	287,065	371,735
Decrease (increase) in cash held for investments	2,310,607	(2,888,329)
	9,187,589	(17,411)
Increase in cash	589,457	155,521
Cash, beginning of year	363,949	208,428
Cash, end of year	\$ 953,406	\$ 363,949

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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### **Nature of operations:**

The Alberta Law Foundation (the "Foundation") was established by amendments to the Legal Profession Act, which became effective on April 1, 1973. The Foundation is the recipient of the interest which banks, credit unions, trust companies, and treasury branches must pay on clients' funds held in lawyers' pooled trust accounts, and also earns investment income and receives undisbursable trust funds from the Law Society of Alberta. The interest earned on lawyers' pooled trust accounts is calculated and remitted to the Foundation based on agreements made with individual financial institutions. This does not include interest paid on a specific trust investment held for an individual client. The interest and other net income are made available by the Foundation to organizations engaged in activities which are considered to be in keeping with the Foundation's objects pursuant to the Legal Profession Act. The Foundation is a not-for-profit organization as defined in the Income Tax Act (Canada) and is exempt from income taxes.

### **1. Significant accounting policies:**

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountant Handbook.

#### **(a) Financial instruments**

The Foundation initially measures its financial assets and financial liabilities at fair value. The Foundation subsequently measures all of its financial assets and liabilities at amortized cost, except for the investments, that are quoted in an active market, which are measured at fair value. The Foundation does not engage in hedge transactions.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral.

If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.



# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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### 1. Significant accounting policies (continued):

(b) Interest received on lawyers' pooled trust accounts:

The Foundation reports interest earned on lawyers' pooled trust accounts as received or receivable. The lawyers' pooled trust accounts are not the property of, nor administered by, the Foundation. The Foundation records the amount of interest receivable at the time the amounts are determinable from the individual financial institutions. As at March 31, 2016 the Foundation recognized interest receivable of \$956,345 (2015 - \$1,383,798) from lawyers' pooled trust accounts.

(c) Investments:

Investments are recorded at fair value based upon closing prices for publicly traded securities and quoted prices for fixed rate investments. Realized investment gains (losses) are recorded on a settlement date basis. Any unrealized gains (losses) are reflected as a change in unrealized gain (loss) on investments in the statement of operations. Interest earned on investments is recorded on an accrual basis.

(d) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Unrestricted contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recorded as deferred revenue, and are recognized as revenue in the year in which the related expenses are incurred.

(e) Grant Stabilization Fund:

The Grant Stabilization Fund represents amounts which are reserved for future funding of programs, at the Board's discretion, in those years when net revenues and other reserves are deemed inadequate, and require the approval of the Board of Directors prior to allocation.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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### 1. Significant accounting policies (continued):

(f) Strategic Reserve Fund:

The Directors of the Foundation established the Strategic Reserve Fund in 2007. The Strategic Reserve Fund represents amounts which are reserved for long term strategic purposes and require the approval of the Board of Directors prior to allocation.

(g) Unrestricted net assets:

Unrestricted net assets represent amounts which have not been committed to projects, programs or otherwise restricted.

(h) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

### 2. Investments:

As at March 31, 2016, market values reflect unrealized gains or losses on certain investments. Included in investment income are realized losses from the sale of investments of \$144,324 (2015 - \$22,321) and realized gains from the sale of investments of \$221,589 (2015 - \$588,595).

Investments maturing within one year are classified as current assets. The current portion of investments as reported under current assets on the Statement of Financial Position is comprised of cash held in Bank Investment Accounts.

It is not the intention of the Foundation to actively engage in the purchase and sale of securities on a short term basis, but primarily to meet liquidity needs if and when they may arise.

The Foundation's investment policy specifies the maximum levels of direct equity market exposure, in addition to fixed and variable rate investments. The policy addresses issues of diversification, asset allocation, investment concentration and minimum credit ratings. Investment decisions are made by an experienced professional investment manager in accordance with the Foundation's Statement of Investment Policy and Procedures.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

### 2. Investments (continued):

	2016		2015	
	Cost	Fair value	Cost	Fair value
RBC:				
Investment Account	\$ 1,758,839	\$ 1,758,839	\$ 4,069,446	\$ 4,069,446
Restricted Short term Investments (note 3)	204,426	204,426	491,491	491,491
	1,963,265	1,963,265	4,560,937	4,560,937
Connor Clark & Lunn:				
Money Market Fund	170,485	170,485	190,848	190,848
Short Term Bond	27,561,420	27,343,700	32,191,523	32,742,940
Bond Fund A	27,729,543	27,865,303	31,181,637	32,929,360
High Yield Bond Fund	12,553,936	11,279,935	9,458,982	9,481,281
Equity Income & Growth I	17,332,574	17,612,362	18,837,620	19,588,904
	85,347,958	84,271,785	91,860,610	94,933,333
Total investments:	87,311,223	86,235,050	96,421,547	99,494,270
Less: Current portion	1,963,265	1,963,265	4,560,937	4,560,937
Long term investments	\$ 85,347,958	\$ 84,271,785	\$91,860,610	\$94,933,333

Investments yield 0.95% to 6.3% per annum (2015 - 1.2% to 5.4%). Investment income of \$4,251,202 (2015 - \$5,049,934) was earned during the year.

All securities present a risk of potential loss of capital. Management manages this risk through working closely with a professional investment manager within the parameters established by the Foundation's Statement of Investment Policy and Procedures.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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### 3. Deferred revenue:

In January 2013, the Foundation was the recipient of \$1,225,000 pursuant to a Provincial Court Order under Section 41.1 of the Alberta Occupational Health and Safety Act ("OHS"), to be directed towards a specific approved project being undertaken by the Alberta Workers' Health Centre. The project will provide public legal education materials and training to temporary foreign workers ("TFW") and other new Alberta workers about their respective legal rights and responsibilities as they pertain to workplace health and safety in Alberta and support them in the exercise of those rights and obligations. The Provincial Court Order stipulates that interest earned on these funds will accrue to the TFW project. During the year the funds earned interest in the amount of \$2,693 (2015 - \$7,749). As at March 31, 2016, the remaining funds plus earned interest received was held in a short term investment account. During the year \$290,000 (2015 - \$380,000) was recognized as revenue and the same amount of project expenses paid out.

### 4. Grant refunds and allocations withdrawn:

Grant refunds represent funds returned to the Foundation from projects or programs which did not require all the funds originally advanced to them by the Foundation.

Approved grants contain restrictions on the use of funds that may result in a portion of the grants payable being withheld. Grants payable allocations are withdrawn (reversed) when the Foundation becomes aware that the funds are no longer required or when grant conditions have not been met.

### 5. Restricted Net Assets - Grant Stabilization Fund and Strategic Reserve Fund:

The Grant Stabilization Fund and the Strategic Reserve Fund are subject to internally imposed restrictions and require the approval of the Board of Directors for all transactions related to those funds.

In the fiscal year ended March 31, 2016, the Directors approved the transfers of \$nil (2015 - \$1,197,899) from the Strategic Reserve Fund to Unrestricted Net Assets in order to fund the additional payment to Legal Aid Alberta pursuant to the agreement described in note 7, and the amount of \$892,665 (2015 - \$952,500) to fund the project grant approved to the Alberta Legal Information Society. In the fiscal year ended March 31, 2016, the Directors approved the transfer of \$nil (2015 - \$1,503,687) from Unrestricted Net Assets to the Grant Stabilization Fund in accordance with the internal reserve policy established by the Directors. In the fiscal year ended March 31, 2016, the Directors approved the transfer of \$461,658 (2015 - \$nil) from the Grant Stabilization Fund to Unrestricted Net Assets in accordance with the internal reserve policy established by the Directors.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

### 6. Grants payable:

	2016	2015
Balance, beginning of year	\$15,482,774	\$ 14,567,120
Add:		
Program allocations from unrestricted net assets:		
Research and reform	3,103,454	3,279,494
Law libraries	1,669,614	1,614,144
Public legal education	3,110,219	3,125,727
Community, student and native legal programs	7,107,290	7,125,098
	<u>14,990,577</u>	<u>15,144,463</u>
Project allocations from unrestricted net assets:		
Research and reform	60,000	129,000
Public legal education	1,060,742	1,465,137
Community, student and native legal programs	856,176	1,139,946
	<u>1,976,918</u>	<u>2,734,083</u>
Deduct:		
Allocations withdrawn from projects and programs:		
Public legal education	36,411	26,340
	<u>36,411</u>	<u>26,340</u>
Allocations paid:		
Research and reform	3,356,964	3,222,343
Law libraries	1,614,144	1,610,137
Public legal education	4,421,321	4,469,065
Community, student and native legal programs	8,245,942	7,635,007
	<u>17,638,371</u>	<u>16,936,552</u>
Balance, end of year	<u>\$ 14,775,487</u>	<u>\$ 15,482,774</u>

# ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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## 7. Payable to Legal Aid Alberta:

The Legal Profession Act requires the Foundation to pay 25% of the interest it receives on lawyers' pooled trust accounts to Legal Aid Alberta not more than six months after each fiscal year-end. The Legal Profession Act allows for additional contributions to Legal Aid Alberta at the discretion of the Directors. In March of 2013, the Foundation reached an agreement with Legal Aid Alberta to provide additional contributions for 2014 and 2015 allowing for the greater of the 25% legislated contribution and \$6,000,000 in each year. As at March 31, 2015, the Foundation recognized a total contribution of \$6,000,000. As at March 31, 2016, the Foundation recognized a total contribution of \$3,316,971 equal to the 25% required by the Legal Profession Act.

## 8. Commitments:

On March 31, 2016, the Foundation entered into a lease agreement commencing June 1, 2016 for new office premises expiring May 21, 2021. The Foundation's existing lease agreement with its current landlord expires on July 31, 2016. Future operating lease payments for office premises related to these agreements are as follows:

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2017	\$	66,597
2018		58,898
2019		58,898
2020		58,898
There after		58,898

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## 9. Financial Instruments:

The Foundation's financial instruments recognized in the statement of financial position consist of cash, investments, rent security deposit, accrued interest receivable, interest receivable on lawyers' pooled trust accounts, deferred revenue, accounts payable and accrued liabilities, grants payable and payable to Legal Aid Alberta. The carrying values approximate fair values given their short term nature. The fair value of short term and long term investments is disclosed in note 2.

# ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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## 9. Financial Instruments (continued):

The Foundation's investment activities expose it to a variety of financial risks:

(a) Credit risk:

The Foundation's maximum exposure to credit risk is on cash, investments, rent security deposit and interest receivable.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Cash is placed with reputable commercial financial institutions. Credit risk for rent security deposits and interest receivable, accounts receivable and the investments is the risk that the obligation will fail to be discharged causing the Foundation to incur a financial loss. Credit risk is minimized by ensuring that credit is only extended to those entities that management believes has the financial capacity to pay obligations due to the Foundation, and the investments are diversified across different classes of assets and such investments are managed by a professional investment manager in accordance with the Foundation's Statement of Investment Policy and Procedures.

Management and the Board of Directors of the Foundation periodically review its investments to ensure that the credit risk assumed is appropriate.

Receivable for investments sold are balances due from brokers and represent sales transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small as all transactions in listed securities are settled and/or paid for upon delivery using approved brokers.

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in liquidating investments on a timely basis to meet commitments or protect its assets. Management controls liquidity risk through cash flow projections used to forecast funding requirements for its financial instruments.

# ALBERTA LAW FOUNDATION

## Notes to Financial Statements

Year ended March 31, 2016, with comparative information for 2015

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### 9. Financial Instruments (continued):

(c) Market risk:

Current and future investments are subject to market risk due to changes in the value of investments in the fund. Fluctuations in general market interest rates have an impact on investment returns in fixed income investments.

(d) Interest rate risk:

The Foundation is exposed to interest rate risk relating to the income earned on its interest bearing investments as many of these investments have a fixed interest rate for a specified period of time. A 1% reduction in interest rates would reduce the interest income earned by \$666,635 (2015 - \$753,008).

(e) Foreign currency:

The Foundation is exposed to foreign currency fluctuations on investments denominated in US dollars.