

Financial Statements of

ALBERTA LAW FOUNDATION

Year ended March 31, 2017



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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, 2017, 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, 2017, 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 11, 2017
Calgary, Canada

ALBERTA LAW FOUNDATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 2,916,986	\$ 953,406
Investments (note 2)	-	1,963,265
Rent security deposit	-	6,416
Accrued interest - bank accounts	1,751	1,592
Interest receivable:		
Lawyers' pooled trust accounts (note 1(b))	1,054,086	956,345
Receivable for investments sold	-	2,000,000
	3,972,823	5,881,024
Investments (note 2)	81,766,020	84,271,785
	\$ 85,738,843	\$ 90,152,809

Liabilities and Net Assets

Current liabilities:		
Deferred revenue (note 3)	\$ -	\$ 204,539
Accounts payable and accrued liabilities	49,676	80,084
Grants payable (note 6)	12,086,816	14,775,487
Payable to Legal Aid Alberta (note 7)	2,905,137	3,316,971
	15,041,629	18,377,081
Net Assets:		
Grant stabilization fund	36,621,360	44,971,731
Strategic reserve fund	32,622,048	25,116,677
Unrestricted	1,453,806	1,687,320
	70,697,214	71,775,728
Commitments (note 8)		
	\$ 85,738,843	\$ 90,152,809

See accompanying notes to financial statements

Approved by the Board:



Director



Director

ALBERTA LAW FOUNDATION

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenues:		
Interest earned on lawyers' pooled trust accounts	\$ 11,620,549	\$ 13,267,884
Investment Income (note 2)	3,959,494	4,251,202
Income recognized from deferred revenue (note 3)	205,171	290,000
Undisbursable trust balances from Law Society of Alberta	347,246	154,293
	<u>16,132,460</u>	<u>17,963,379</u>
Expenses:		
Salaries	521,121	526,583
Investment advisory fee	213,093	221,204
Rent and parking	123,661	75,271
Computing / Web Services	31,573	31,713
Board travel and meetings	26,043	56,764
General administration	24,390	24,123
Professional fees	22,529	24,806
Insurance	10,837	24,105
Contract fees	5,110	100,671
	<u>978,357</u>	<u>1,085,240</u>
Allocation to Legal Aid Alberta (note 7)	2,905,137	3,316,971
Project payments related to deferred revenue (note 3)	205,171	290,000
Excess of revenues over expenses before grant allocations	<u>12,043,795</u>	<u>13,271,168</u>
Deduct:		
Project grant allocations (note 6)	2,096,102	1,976,918
Program grant allocations (note 6)	12,207,120	14,990,577
Total grant allocations	<u>14,303,222</u>	<u>16,967,495</u>
Add:		
Grant refunds (note 4)	436,941	388,440
Allocations withdrawn (notes 4 and 6)	172,776	36,411
	<u>609,717</u>	<u>424,851</u>
Net Grant Allocations:	<u>13,693,505</u>	<u>16,542,644</u>
Deficiency of revenues over expenses before unrealized (loss) gain on investments	(1,649,710)	(3,271,476)
Change in unrealized gain (loss) on investments	571,196	(4,148,896)
Deficiency of revenues over expenses	<u>\$ (1,078,514)</u>	<u>\$ (7,420,372)</u>

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

	Unrestricted	Grant Stabilization Fund	Strategic Reserve Fund	2017 Total	2016 Total
Balance, beginning of year	\$ 1,687,320	\$ 44,971,731	\$ 25,116,677	\$ 71,775,728	\$ 79,196,100
Deficiency of revenue over expenses	(1,078,514)	-	-	(1,078,514)	(7,420,372)
Internally designated transfers (note 5)	845,000	-	(845,000)	-	-
Internally designated transfers (note 5)	-	(8,350,371)	8,350,371	-	-
Balance, end of year	\$ 1,453,806	\$ 36,621,360	\$ 32,622,048	\$ 70,697,214	\$ 71,775,728

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (1,078,514)	\$ (7,420,372)
Items not involving cash:		
Change in unrealized gain/loss on investments	(571,196)	4,148,896
Net realized gain on sale of investments	(435,226)	(77,265)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(30,408)	(1,025)
Grants payable	(2,688,671)	(707,287)
Deferred revenue	(204,539)	(287,307)
Payable to Legal Aid Alberta	(411,834)	(2,683,029)
Interest receivable - lawyers' pooled trust accounts	(97,741)	427,453
Accrued Interest - bank accounts	(159)	1,804
Rent Security Deposit	6,416	-
Receivable for investments sold	2,000,000	(2,000,000)
	(3,511,872)	(8,598,132)
Investments:		
Purchase of investments	(30,362,759)	(9,495,263)
Proceeds from disposal of investments	33,874,946	16,085,180
Decrease in cash held for deferred revenue	204,426	287,065
Increase in cash held for investments	1,758,839	2,310,607
	5,475,452	9,187,589
Increase in cash	1,963,580	589,457
Cash, beginning of year	953,406	363,949
Cash, end of year	\$ 2,916,986	\$ 953,406

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017, with comparative information for 2016

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, 2017, with comparative information for 2016

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, 2017 the Foundation recognized interest receivable of \$1,054,086 (2016 - \$956,345) 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.

(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.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017, with comparative information for 2016

2. Investments:

As at March 31, 2017, market values reflect unrealized gains or losses on certain investments. Included in investment income are realized losses from the sale of investments of \$563,653 (2016 - \$144,324) and realized gains from the sale of investments of \$998,879 (2016 - \$221,589).

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, 2017, with comparative information for 2016

2. Investments (continued):

	2017		2016	
	Cost	Fair value	Cost	Fair value
RBC:				
Investment Account	\$ -	\$ -	\$ 1,758,839	\$ 1,758,839
Restricted Short term Investments (note 3)	-	-	204,426	204,426
	-	-	1,963,265	1,963,265
Connor Clark & Lunn:				
Money Market Fund	80,236	80,236	170,485	170,485
Short Term Bond	29,451,568	28,919,169	27,561,420	27,343,700
Bond Fund A	29,612,763	28,936,263	27,729,543	27,865,303
High Yield Bond Fund	6,141,308	5,747,177	12,553,936	11,279,935
Equity Income & Growth I	8,420,554	9,058,998	17,332,574	17,612,362
Q Group Global Equity	8,564,569	9,024,178	-	-
	82,270,998	81,766,021	85,347,958	84,271,785
Total investments:	82,270,998	81,766,021	87,311,223	86,235,050
Less: Current portion	-	-	1,963,265	1,963,265
Long term investments	\$82,270,998	\$81,766,021	\$85,347,958	\$84,271,785

Investments yield 0.85% to 5.14% per annum (2016 - 0.95% to 6.3%). Investment income of \$3,959,494 (2016 - \$4,251,202) 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, 2017, with comparative information for 2016

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 Act"), to be directed towards a specific approved project being undertaken by the Alberta Workers' Health Centre. The project provided 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 supported 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 \$632 (2016 - \$2,693). As at March 31, 2017, the remaining funds plus earned interest received had been completely distributed for the project. During the year \$205,171 (2016 - \$290,000) 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. Internally 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, 2017, the Directors approved the transfer of \$845,000 (2016 - \$892,665) from the Strategic Reserve Fund to Unrestricted Net Assets in order to fund the project grant approved to the Alberta Legal Information Society (\$445,000) and the project grant approved to the Joint Library Committee (\$400,000). In the fiscal year ended March 31, 2017, the Directors approved the transfer of \$nil (2016 - \$461,658) from the Grant Stabilization Fund to Unrestricted Net Assets in accordance with the internal reserve policy established by the Directors. In the fiscal year ended March 31, 2017, the Directors approved the transfer of \$8,350,371 (2016 - \$nil) from the Grant Stabilization Fund to the Strategic Reserve Fund in accordance with the internal reserve policy established by the Directors.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017, with comparative information for 2016

6. Grants payable:

	2017	2016
Balance, beginning of year	\$14,775,487	\$ 15,482,774
Add:		
Program allocations from unrestricted net assets:		
Research and reform	2,467,252	3,103,454
Law libraries	1,000,000	1,669,614
Public legal education	2,115,233	3,110,219
Community, student and native legal programs	6,624,635	7,107,290
	12,207,120	14,990,577
Project allocations from unrestricted net assets:		
Research and reform	340,625	60,000
Law libraries	400,000	-
Public legal education	569,433	1,060,742
Community, student and native legal programs	786,044	856,176
	2,096,102	1,976,918
Deduct:		
Allocations withdrawn from projects and programs:		
Public legal education	172,269	36,411
Community, student and native legal programs	507	-
	172,776	36,411
Allocations paid:		
Research and reform	3,118,033	3,356,964
Law libraries	1,669,614	1,614,144
Public legal education	4,090,921	4,421,321
Community, student and native legal programs	7,940,549	8,245,942
	16,819,117	17,638,371
Balance, end of year	\$ 12,086,816	\$ 14,775,487

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017, with comparative information for 2016

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. As at March 31, 2017, the Foundation recognized a total contribution to Legal Aid Alberta of \$2,905,137 (2016 - \$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. Future operating lease payments for office premises related to this lease agreement are as follows:

2018	\$	58,896
2019		58,896
2020		58,896
2021		58,896
2022		14,724

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, 2017, with comparative information for 2016

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.

(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 \$635,832 (2016 - \$666,635).

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017, with comparative information for 2016

9. Financial Instruments (continued):

(e) Foreign currency:

The Foundation is exposed to foreign currency fluctuations on the underlying investments denominated in foreign currency.