

Financial Statements of

ALBERTA LAW FOUNDATION

Year ended March 31, 2018



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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, 2018, 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, 2018, 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 10, 2018
Calgary, Canada

ALBERTA LAW FOUNDATION

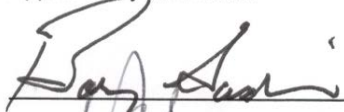
Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 4,357,590	\$ 2,916,986
Accrued interest - bank accounts	5,042	1,751
Interest receivable:		
Lawyers' pooled trust accounts (note 1(b))	2,476,478	1,054,086
Prepaid expenses	8,160	—
	<u>6,847,270</u>	<u>3,972,823</u>
Investments (note 2)	82,623,989	81,766,020
	<u>\$ 89,471,259</u>	<u>\$ 85,738,843</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 81,166	49,676
Grants payable (note 6)	11,245,298	12,086,816
Payable to Legal Aid Alberta (note 7)	4,822,898	2,905,137
	<u>16,149,362</u>	<u>15,041,629</u>
Net Assets:		
Grant stabilization fund (note 5)	39,699,849	36,621,360
Strategic reserve fund (note 5)	32,622,048	32,622,048
Unrestricted	1,000,000	1,453,806
	<u>73,321,897</u>	<u>70,697,214</u>
Commitments (note 8)		
	<u>\$ 89,471,259</u>	<u>\$ 85,738,843</u>

See accompanying notes to financial statements

Approved by the Board:



Director



Director

ALBERTA LAW FOUNDATION

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenues:		
Interest earned on lawyers' pooled trust accounts	\$ 19,291,591	\$ 11,620,549
Investment Income (note 2)	4,255,149	3,959,494
Income recognized from deferred revenue (note 3)	–	205,171
Undisbursable trust balances from Law Society of Alberta	170,134	347,246
	<u>23,716,874</u>	<u>16,132,460</u>
Expenses:		
Salaries	535,790	521,121
Investment advisory fee	207,828	213,093
Rent and parking	85,702	123,661
Travel and meetings	54,722	32,223
Computing and web services	28,206	31,573
Professional fees	20,223	22,529
Contract fees	20,179	5,110
General administration	15,531	18,210
Insurance	3,580	10,837
	<u>971,761</u>	<u>978,357</u>
Allocation to Legal Aid Alberta (note 7)	4,822,898	2,905,137
Project payments related to deferred revenue (note 3)	–	205,171
Excess of revenues over expenses before grant allocations	<u>17,922,215</u>	<u>12,043,795</u>
Deduct:		
Project grant allocations (note 6)	1,442,522	2,096,102
Program grant allocations (note 6)	11,745,995	12,207,120
Total grant allocations	<u>13,188,517</u>	<u>14,303,222</u>
Add:		
Grant refunds (note 4)	446,459	436,941
Allocations withdrawn (notes 4 and 6)	54,776	172,776
	<u>501,235</u>	<u>609,717</u>
Net grant allocations:	<u>12,687,282</u>	<u>13,693,505</u>
Excess of revenues over expenses before unrealized (loss) gain on investments	5,234,933	(1,649,710)
Change in unrealized gain (loss) on investments	(2,610,250)	571,196
Excess of revenues over expenses	<u>\$ 2,624,683</u>	<u>\$ (1,078,514)</u>

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Unrestricted	Grant Stabilization Fund	Strategic Reserve Fund	2018 Total	2017 Total
Balance, beginning of year	\$ 1,453,806	\$ 36,621,360	\$ 32,622,048	\$ 70,697,214	\$71,775,728
Excess of revenue over expenses	2,624,683	—	—	2,624,683	(1,078,514)
Internally designated transfers (Note 5)	(3,078,489)	3,078,489	—	—	—
Balance, end of year	\$ 1,000,000	\$ 39,699,849	\$ 32,622,048	\$73,321,897	\$ 70,697,214

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 2,624,683	\$ (1,078,514)
Items not involving cash:		
Change in unrealized gain/loss on investments	2,610,250	(571,196)
Net realized gain on sale of investments	(24,361)	(435,226)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	31,490	(30,408)
Grants payable	(841,518)	(2,688,671)
Deferred revenue	–	(204,539)
Payable to Legal Aid Alberta	1,917,761	(411,834)
Interest receivable - lawyers' pooled trust accounts	(1,422,392)	(97,741)
Accrued interest - bank accounts	(3,291)	(159)
Prepaid expenses	(8,160)	6,416
Receivable for investments sold	–	2,000,000
	4,884,462	(3,511,872)
Investments:		
Purchase of investments	(18,409,296)	(30,362,759)
Proceeds from disposal of investments	14,965,438	33,874,946
Decrease in cash held for deferred revenue	–	204,426
Increase in cash held for investments	–	1,758,839
	(3,443,858)	5,475,452
Increase in cash	1,440,604	1,963,580
Cash, beginning of year	2,916,986	953,406
Cash, end of year	\$ 4,357,590	\$ 2,916,986

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018, with comparative information for 2017

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 records its financial assets and financial liabilities at cost. At fiscal year end, the Foundation records its investments at fair value. The Foundation does not engage in hedge transactions.

(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, 2018, the Foundation recognized interest receivable of \$2,476,478 (2017 - \$1,054,086) 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.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018, with comparative information for 2017

1. Significant accounting policies (continued):

(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, 2018, with comparative information for 2017

2. Investments:

As at March 31, 2018, market values reflect unrealized gains or losses on certain investments. Included in investment income are realized losses from the sale of investments of \$197,030 (2017 - \$563,653) and realized gains from the sale of investments of \$221,391 (2017 - \$998,879).

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.

	2018		2017	
	Cost	Fair value	Cost	Fair value
Money Market Fund	\$ —	\$ —	\$ 80,236	\$ 80,236
Short Term Bond	30,042,012	28,755,503	29,451,568	28,919,169
Bond Fund A	29,881,704	28,720,280	29,612,766	28,936,263
High Yield Bond Fund	6,330,935	5,778,320	6,141,308	5,747,177
Equity Income & Growth I	8,116,126	7,927,890	8,420,554	9,058,998
Q Group Global Equity	11,368,442	11,441,996	8,564,568	9,024,177
	\$ 85,739,219	\$82,623,989	\$ 82,271,000	\$81,766,020

Investments yield 2.69% to 4.74% per annum (2017 - 0.85% to 5.14%). Investment income of \$4,255,149 (2017 - \$3,959,494) 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, 2018, with comparative information for 2017

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. As at March 31, 2017, the remaining funds plus earned interest received had been completely distributed for the project.

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 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, 2018, the Directors approved the transfer of \$nil (2017 - \$8,350,371) from the Grant Stabilization Fund to the Strategic Reserve Fund in accordance with the internal reserve policy established by the Directors. In the fiscal year ended March 31, 2018, the Directors approved the transfer of \$3,078,489 (2017 - \$nil) from Unrestricted Net Assets to the Grant Stabilization Fund, in accordance with the internal reserve policy established by the Directors.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018, with comparative information for 2017

6. Grants payable:

	2018	2017
Balance, beginning of year	\$12,086,816	\$ 14,775,487
Add:		
Program grant allocations:		
Research and reform	2,502,096	2,467,252
Law libraries	1,200,000	1,000,000
Public legal education	1,278,154	2,115,233
Community, student and native legal programs	6,765,745	6,624,635
	<u>11,745,995</u>	<u>12,207,120</u>
Project grant allocations:		
Research and reform	355,972	340,625
Law libraries	–	400,000
Public legal education	75,470	569,433
Community, student and native legal programs	1,011,080	786,044
	<u>1,442,522</u>	<u>2,096,102</u>
Deduct:		
Allocations withdrawn from projects and programs:		
Public legal education	54,776	172,269
	<u>54,776</u>	<u>172,776</u>
Allocations paid:		
Research and reform	2,842,852	3,118,033
Law libraries	1,400,000	1,669,614
Public legal education	2,153,559	4,090,921
Community, student and native legal programs	7,578,848	7,940,549
	<u>13,975,259</u>	<u>16,819,117</u>
Balance, end of year	<u>\$11,245,298</u>	<u>\$ 12,086,816</u>

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, 2018, the Foundation recognized a total contribution to Legal Aid Alberta of \$4,822,898 (2017 - \$2,905,137) equal to the 25% required by the Legal Profession Act.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018, with comparative information for 2017

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:

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, 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 investments is disclosed in note 2.

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.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2018, with comparative information for 2017

9. Financial instruments (continued):

(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 \$630,964 (2017 - \$635,832).

(e) Foreign currency:

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

10. Comparative figures:

The prior year Comparative figures have been reclassified to conform to the current year's presentation.