



Financial Statements and Other Financial Information of

**ALBERTA LAW FOUNDATION**

Year ended March 31, 2008

## **AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

We have audited the statement of financial position of the Alberta Law Foundation as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Original signed by KPMG*

Chartered Accountants

Calgary, Canada  
May 22, 2008

# ALBERTA LAW FOUNDATION

## Statement of Financial Position

March 31, 2008, with comparative figures for 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 932,407	\$ 131,192
Accrued interest:		
Investments	994,712	820,325
Lawyers' general trust accounts (note 2(a))	4,473,687	6,392,716
	<u>6,400,806</u>	<u>7,344,233</u>
Investments (note 3)	113,052,571	76,458,615
	<u>\$ 119,453,377</u>	<u>\$ 83,802,848</u>
<b>Liabilities</b>		
Current liabilities:		
Grants payable (schedule):		
General	\$ 13,231,699	\$ 13,465,975
Special project fund	235,850	595,888
	<u>13,467,549</u>	<u>14,061,863</u>
Payable to Legal Aid Society of Alberta (note 4)	14,857,541	13,374,431
	<u>28,325,090</u>	<u>27,436,294</u>
<b>Net Assets</b>		
Grant stabilization fund (note 2)	36,339,594	31,857,132
Strategic reserve fund (note 2)	54,000,000	20,000,000
Unrestricted (note 2)	788,693	4,509,422
	<u>91,128,287</u>	<u>56,366,554</u>
Commitment (note 8)		
	<u>\$ 119,453,377</u>	<u>\$ 83,802,848</u>

See accompanying notes to financial statements.

Approved by the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ALBERTA LAW FOUNDATION

## Statement of Operations

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Interest received on lawyers' general trust accounts	\$ 59,430,161	\$ 53,497,726
Interest earned from investments	3,716,989	2,226,304
Unclaimed trust balances from Law Society of Alberta	92,159	93,377
	<u>63,239,309</u>	<u>55,817,407</u>
Expenses:		
Salaries	190,483	175,553
Investment advisory fee	174,026	112,277
Rent and parking	64,699	54,665
Board travel and meetings	30,612	35,163
Insurance	25,502	14,082
Professional fees	20,652	19,967
Printing	5,781	4,166
Postage	3,930	1,745
Equipment	3,845	2,373
Staff travel and meetings	3,371	3,021
Other	3,082	602
Telephone	2,694	2,614
Website and computer	1,350	1,201
Office supplies	1,317	1,421
Photocopying	560	928
Bank charges	317	254
	<u>532,221</u>	<u>430,032</u>
Allocation to Legal Aid Society of Alberta (note 4)	14,857,541	13,374,431
Excess of revenue over expenses before grant allocations	<u>47,849,547</u>	<u>42,012,944</u>
Deduct:		
Project allocations from unrestricted net assets:		
Research and reform	1,226,945	1,172,199
Public legal education	390,708	2,103,340
Native and student assistance	110,157	108,316
	<u>1,727,810</u>	<u>3,383,855</u>
Core program allocations from unrestricted net assets:		
Research and reform	4,275,762	3,963,700
Law libraries	975,000	950,000
Public legal education	4,729,383	4,060,427
Native and student assistance	2,143,015	1,916,017
	<u>12,123,160</u>	<u>10,890,144</u>
Add:		
Grant refunds (note 5)	133,746	149,196
Allocations withdrawn	4,630	283,189
	<u>138,376</u>	<u>432,385</u>
Unrealized gains on investments (note 3)	573,693	—
Excess of revenue over expenses	<u>\$ 34,710,646</u>	<u>\$ 28,171,330</u>

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

## Statement of Changes in Net Assets

Year ended March 31, 2008, with comparative figures for 2007

	Grant Stabilization Fund	Unrestricted	Strategic Reserve Fund	2008 Total	2007 Total
Balance, beginning of year	\$31,857,132	\$ 4,509,422	\$20,000,000	\$56,366,554	\$28,792,089
Adjustment due to change in accounting policy (note 1)	–	51,088	–	51,088	–
Excess of revenue over expenses	–	34,710,646	–	34,710,645	28,171,330
Internally designated transfers	4,482,462	(38,482,462)	34,000,000	–	–
Grants awarded – Special project	–	–	–	–	(596,865)
Balance, end of year	\$36,339,594	\$ 788,694	\$54,000,000	\$91,128,287	\$56,366,554

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

## Statement of Cash Flows

Year ended March 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 34,710,646	\$ 28,171,330
Items not involving cash:		
Unrealized gain on investments	(573,693)	–
Changes in non-cash working capital:		
Special project fund grants awarded	–	(596,865)
Grants payable	(594,314)	3,970,813
Payable to Legal Aid Society of Alberta	1,483,110	7,837,492
Accrued interest – Lawyer’s general trust accounts	1,919,029	(2,855,007)
	<u>36,944,778</u>	<u>36,527,763</u>
Investments:		
Amortization of premiums and discounts	(78,968)	21,175
Purchase of investments	(66,897,855)	(64,783,716)
Maturities of investments	31,007,647	28,668,219
Accrued interest on investments	(174,387)	(442,249)
	<u>(36,143,563)</u>	<u>(36,536,571)</u>
Increase (decrease) in cash	801,215	(8,808)
Cash, beginning of year	131,192	140,000
Cash, end of year	<u>\$ 932,407</u>	<u>\$ 131,192</u>
Supplemental cash flow information:		
Cash received - interest and dividends	\$ 3,674,214	\$ 1,777,992

See accompanying notes to financial statements.

# ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2008

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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' general trust accounts. The interest earned 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 is 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. Change in accounting policies:**

Effective April 1, 2007, the Foundation adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): "Financial Instruments – Recognition and Measurement", "Comprehensive Income", and "Financial Instruments – Disclosure and Presentation". These new standards have been adopted retroactively without restatement on adoption of these standards. As a result, the Foundation recognized an unrealized gain on its investments of \$51,088 on April 1, 2007.

### **(i) Financial instruments**

All financial instruments must be initially recognized at fair value on the balance sheet date. The Foundation has classified each financial instrument into the following categories: held for trading financial assets and liabilities; available for sale financial assets; and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held for trading, even if the financial instrument does not meet the criteria to designate it as held for trading. The Foundation has elected to classify its cash and investments as held for trading, which are measured at fair value.

Grants payable and Payable to Legal Aid are classified as other financial liabilities which are also measured at amortized cost.

### **(ii) Comprehensive income (continued):**

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in the OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI.

The Foundation had no “other comprehensive income or loss” transactions during the year ended March 31, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

## **2. Significant accounting policies:**

### **(a) Interest received on lawyers’ general trust accounts:**

The Foundation reports interest received on lawyers’ general trust accounts as received or determinable. The lawyers’ general trust accounts are not the property of, nor administered by, the Foundation. The Foundation accrues the amount of interest at the time the amounts are determinable from the individual financial institutions. For the fiscal year ended March 31, 2008 the Foundation recognized interest earnings of approximately \$4.5 million (2007 - \$6.4 million) from lawyers’ general trust accounts that were received subsequent to year-end.

### **(b) Investments:**

Investments are recorded at fair value at year end. Any unrealized gains or losses are reflected in the statement of operations and changes in net assets. The purchase premium or discount, if any, is charged to revenue and expenses over the life of the investment. Interest earned on investments is recorded on the accrual basis.

### **(c) Property and equipment:**

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated life of the asset. All individual items under \$5,000 are expensed in the year purchased.

### **(d) Revenue recognition:**

The Foundation follows the deferral method of accounting for interest income.

Revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

### **(e) Special project fund:**

The Special Project Fund was a temporary reserve fund set up by the Directors of the Foundation to meet a variety of specific objectives in 2006, and which has since been fully completed. Grants in the amount of \$nil (2007 - \$596,865) were approved from this fund during 2008.

### **(f) Grant stabilization fund:**

Grant stabilization funds represent amounts which are reserved for future funding of committed programs and require the approval of the Board of Directors prior to allocation.

### **(g) Strategic reserve fund:**

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

### **(h) Unrestricted net assets:**

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



## 2. Significant accounting policies (continued):

### (i) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## 3. Investments:

	2008		2007	
	Cost	Market value	Cost	Market value
Government of Canada T-bills, and bonds	\$ –	\$ –	\$ 2,742,789	\$ 2,756,640
Crown Corporations notes	9,470,553	9,438,896	9,470,450	9,253,748
Provincial Government notes	11,350,000	11,501,464	19,165,313	19,248,582
Canadian Banks notes	84,260,943	84,724,393	40,230,434	40,353,581
Corporations notes, debentures	5,834,652	5,848,966	3,336,716	3,387,602
Municipal notes	1,511,641	1,538,852	1,512,913	1,509,550
	<u>\$112,427,789</u>	<u>\$113,052,571</u>	<u>\$ 76,458,615</u>	<u>\$ 76,509,703</u>

As at March 31, 2008, market values reflect increases or decreases from cost due to current interest rates differing from contractual rates, and unrealized gains on certain investments. In accordance with CICA 3855 all the investments held at March 31, 2008 were designated as "Held for Trading". The unrealized gain of \$573,693 (2007 – nil) was recognized as revenue in the Statement of Operations at year end. At March 31, 2007 the fair market value of investments exceeded the cost in the amount of \$51,088.

Notwithstanding the designation of the investments as Held for Trading 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. During the fiscal year the Foundation developed and implemented a comprehensive Investment Policy Statement to govern the handling of investments and the related risk exposure. Effective April 1, 2008 the Policy allows for clearly specified levels of direct equity market exposure, in addition to fixed and variable rate investments. Investment decisions are made in close consultation with an investment professional.

Investments yield to maturity at 3.14% to 5.16% per annum. Interest of \$3,716,989 (2007 - \$2,226,304) was earned during the year.

### (a) Interest rate risk:

Interest rate risk arises from holding fixed interest rate investments.

### (b) Credit risk:

Credit risk arises from the potential for an investee to fail. Credit risk is managed by the Foundation's Board of Directors in accordance with their investment policy.

#### 4. Payable to Legal Aid Society of Alberta:

The Legal Profession Act requires the Foundation to pay 25% of the interest it receives on lawyers' general trust accounts to the Legal Aid Society of Alberta not more than six months after each fiscal year end.

#### 5. Grant refunds:

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.

#### 6. Grants payable:

	2008	2007
General:		
Balance, beginning of year	\$ 13,465,975	\$ 9,255,006
Add:		
Core program allocations from unrestricted net assets:		
Research and reform	4,275,762	3,963,700
Law libraries	975,000	950,000
Public legal education	4,729,383	4,060,427
Native and student assistance	2,143,015	1,916,017
	<u>12,123,160</u>	<u>10,890,144</u>
Project allocations from unrestricted net assets:		
Research and reform	1,226,945	1,172,199
Public legal education	390,708	2,103,340
Native and student assistance	110,157	108,316
	<u>1,727,810</u>	<u>3,383,855</u>
Deduct:		
Allocations withdrawn from projects and programs:		
Research and reform	–	212,375
Public legal education	4,309	6,814
Native and student assistance	–	64,000
	<u>4,309</u>	<u>283,189</u>
Allocations paid:		
Research and reform	4,855,078	4,123,186
Law libraries	1,042,000	967,000
Public legal education	6,130,561	3,546,179
Native and student assistance	2,053,298	1,143,476
	<u>14,080,937</u>	<u>9,779,841</u>
Balance, end of year	<u>\$ 13,231,699</u>	<u>\$ 13,465,975</u>

During the year the Special Project funding withdrawn was \$321 and grants paid was \$359,717, leaving a remaining balance at year end of \$235,850.

## 7. Financial instruments:

The Foundation's financial instruments recognized in the balance sheet consist of cash, fixed and variable rate investments, accrued interest, grants payable and a payable to Legal Aid Society of Alberta. The fair value of long-term investments is disclosed in note 3.

## 8. Commitment:

At March 31, 2008, the Foundation was committed to future operating lease payments for office premises in the following amounts:

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2009	\$	32,832
2010		32,832
2011		34,200
2012		14,250

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## 9. Pending accounting pronouncements:

### (i) Financial Instruments and Comprehensive Income:

In December 2007, the Accounting Standards Board ("AcSB") issued new standards relating to "Financial Instrument - Disclosures" and "Financial Instruments - Presentation", which replaces the current standard of "Financial Instruments - Disclosure and Presentation". The new standard outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, it requires disclosure of the significance of financial instruments for the Foundation's financial position. In addition, the guidance outlines revised requirements for disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments.

The presentation requirements are relatively unchanged and are effective for the Foundation on April 1, 2008. The Foundation is currently determining the impact of these additional disclosure requirements.

### (ii) Capital disclosures:

New standards were issued for Capital Disclosures requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures include a description of what the Foundation manages as capital, the nature of externally imposed capital requirements, and how the requirements are incorporated into the Foundation's management of capital, whether the requirements have been complied with, or consequences of non-compliance with an explanation of how the Foundation is meeting its objectives for managing capital. In addition, quantitative data about capital and whether the Foundation has complied with all capital requirements are also required.

The standard is effective for the Foundation on April 1, 2008. The Foundation is currently determining the impact of these additional disclosure requirements.